مكتبة الحيل

FINANCIAL TIMES

Asian security
Wake-up call from Japan
Page 7

Reign from Spain
Mondragón's foreign investment drive
Page 25

Quantum leap
Replacing classical computing
Technology, Page 13

Today's surveys
Brazil Finance & Investment
International Gas Industry
Separate section; Pages 9-12

World Business Newspaper http://www.FT.com TUESDAY JUNE 10 1997

Airports group warns over new London terminal

UK airports group BAA warned the government that the south-east of England would be unable to cope with an expected doubling of air passengers over the next 20 years unless Heathrow was allowed to build a fifth terminal. Chief executive Sir John Egan said: "Terminal Five will not, as some people believe, increase the landing capacity of Heathrow. What it will do is enable us to realise the existing runway capacity." He was speaking after the group unveiled full-year pre-tax profit after exceptional items of £407m for the year to March 31, down 2.6 per cent on the previous year. The results were in line with expectations and the shares rose 2¼p to 540p. Page 21; Lex, Page 27

Parmalat buys Ault: Parmalat, the Italian dairy products group, stepped up its North American expansion strategy with an agreed C$415m (US$300m) bid for Ault Foods, the Canadian food processing company. The Italian group acquired Beatrice Foods of Canada for $290m two months ago. Page 21

BankAmerica acquisition: BankAmerica announced the $540m purchase of privately held San Francisco-based investment bank Robertson Stephens and the sale of its consumer finance subsidiary, signalling a shift from retail towards institutional business. Page 21

Separatist Bossi ordered to stand trial

An Italian judge ordered Northern League leader Umberto Bossi, left, to stand trial for urging supporters to "identify and pursue" far-right voters. Judge Mariarosa Persico ruled that Bossi should face charges of "incitement to violence, aggravated threats and defamation".

BIS cautions on liberalisation: The trend towards liberalised financial markets is becoming a threat to the stability of global payment systems, warned the Bank for International Settlements – the umbrella organisation of the world's central banks. Page 20; Editorial Comment, Page 19; Interest changes, Page 4

Taiwan futures: Taiwan should be ready to launch its first financial futures contract, based on the Taiex stock index, by the end of this year or early in 1998 according to Gloria Tseng, a legal adviser to the country's embryonic Taiwan International Mercantile Exchange. Page 21

Music piracy: Record companies will this month adopt a system that identifies when pirates have hijacked their music. The system uses "embedded signalling" technology. Page 20; Sony and Philips push ahead with advanced CD, Page 6

Modified maize: The European Commission is poised to reaffirm approval for imports of genetically modified maize, overriding import bans by member states and objections by the European parliament. Page 6

Textiles tussle: Vietnam and the European Union are set for a tussle over textile quotas, with Hanoi determined to win greater market access and Brussels under pressure to stem a tide of Vietnamese imports. Page 6

Europe-wide truck protest: French truck drivers set up dozens of frontier barricades, spearheading a European day of action for better pay and conditions that disrupted traffic from Germany to Portugal. Page 2

Pressure on the koruna: Slovakia is under pressure to depreciate the koruna despite the insistence of prime minister Vladimír Mečiar, that a devaluation was not imminent. Page 2

Atlas purchase: Swedish engineering group Atlas Copco is buying Prime Service, the second-largest rental equipment company in the US, for $900m. Page 21; Lex, Page 20

Farmers overpaid: The European Union has overcompensated cereal farmers by Ecu 8.5bn ($9.5bn) in the past four years for falls in prices which never happened. Page 2

Doubt over Algerian poll: A critical report on the Algerian elections confronts the west with the realities of the country's political crisis. Page 4

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	7,483.34	(+47.56)
NASDAQ Composite	1,414.79	(+9.95)
Europe and Far East		
CAC40	2,686.20	(-33.05)
DAX	3,667.43	(-27.86)
FTSE 100	4,686.7	(+41.7)
Nikkei	20,223.82	(-261.93)

US LUNCHTIME RATES

Federal Funds	5½%
3-mth Treas Bills: Yld	5.036%
Long Bond	97¾
Yield	6.801%

OTHER RATES

UK: 3-mo Interbank	6⅝%	(same)
UK: 10 yr Gilt	101	(101⅓)
France: 10 yr OAT	98.26	(98.42)
Germany: 10 yr Bond	101.36	(101.59)
Japan: 10 yr JGB	103.577	(103.467)

NORTH SEA OIL (Argus)

Brent Dated	$17.04	(17.57)

GOLD

New York: Comex	
(June) $343.9	(343.2)
London:	
close $344.05	(344.45)

DOLLAR

New York: lunchtime		
£	1.637	
DM	1.7025	
FFr	5.7581	
SFr	1.4336	
Y	112.836	
London:		
£	1.6342	(1.6275)
DM	1.7085	(1.7289)
FFr	5.774	(5.835)
SFr	1.4376	(1.4507)
Y	112.75	(115.365)
Tokyo close: Y 113.195		

STERLING

DM	2.792	(2.8136)

9 770174 736128 24

Paris seeks Emu pact delay

EU partners stunned by request for more time to consider budgetary rules

By Lionel Barber in Luxembourg

France yesterday stunned its European Union partners with a request for more time to consider the stability pact for enforcing budgetary rigour in the planned single currency zone.

The move risks reopening divisions with Germany on the terms of European economic and monetary union, while complicating efforts to reach agreement on a new EU treaty at next week's summit in Amsterdam, to prepare the EU for enlargement.

The German-inspired stability pact would impose sanctions on countries whose budget deficit exceeds the 3 per cent of gross domestic product target set out in the Maastricht Treaty for countries to enter Emu. The pact would also include a political commitment to balanced budgets. It was agreed in principle in Dublin six months ago and was to be introduced alongside Emu on January 1, 1999. The legal text of the pact had been due for final approval in Amsterdam next week.

Mr Dominique Strauss-Kahn, French finance and industry minister, told EU colleagues in Luxembourg that the new left-wing coalition government in Paris needed more time to study the pact. He said France wanted a "new equilibrium", balancing a commitment to employment and growth with budget and monetary discipline among countries in the euro zone.

"I am not saying I want to renegotiate the pact, but I am not saying I can accept it [in its present form]," he said.

The French move coincides with severe strains in the Bonn coalition over belt-tightening to meet the public deficit target.

Ministers and diplomats in Luxembourg said whether the confusion caused by the French request would develop into a broader crisis would depend on the nature of the French demands and the reaction of the financial markets.

Mr Theo Waigel, German finance minister, said it was understandable that the new French government needed more time because it still had to present its programme to the National Assembly on June 19.

The Dutch government,

Continued on Page 20
Unstable area, Page 2; Nightmare scenario, Page 3; A two-speed carriage, Page 18; Observer, Page 19; Currencies, Page 29; World stocks, Page 40

French finance and industry minister Dominique Strauss-Kahn in Luxembourg yesterday Reuter

Microsoft takes $1bn stake in cable

Software giant aims to link TV with PCs

By Louise Kehoe in San Francisco

Microsoft, the world's biggest software company, is to invest $1bn in Comcast, a leading US cable television company, in an attempt to accelerate the use of broadband communications networks that can carry internet and other interactive multimedia services as well as conventional television.

The Microsoft investment, announced yesterday, will give the software company a stake of almost 15 per cent in Comcast, which has 4.3m subscribers in the US.

"Our vision for connecting the world of PCs and TVs has long included advanced broadband capabilities to deliver video, data and interactivity to the home," said Mr Bill Gates, Microsoft chairman and chief executive. This investment would help the expansion of such services, he said.

Mr Gates believes broadband networks are essential to the convergence of personal computing, television and the internet, but he has been frustrated by the slow pace of their deployment.

"I'm a big believer that the demand for bandwidth is deeply underestimated and that the companies who do come out with these higher bandwidth options ... will see phenomenal demand," Mr Gates said recently. "Microsoft is very dependent" on the expansion of high-speed networks to fulfil its potential, he said.

However, cable TV companies and telecommunications operators have been cautious because it is not clear which types of interactive services appeal to consumers.

"We are putting down $1bn to accelerate the deployment of broadband networks," said Mr Greg Maffei, vice-president of corporate development at Microsoft, who will become an "observer" on Comcast's board of directors. The Microsoft investment would "galvanise others in the cable industry" to upgrade their networks, he predicted.

The Microsoft investment was the result of discussions between cable operators and Microsoft executives about six weeks ago, said Mr Brian Roberts, Comcast president.

Microsoft's enthusiasm for broadband networks is based on its ambition to become a leading supplier of software for interactive multimedia services. "Our goal is to provide the software that enhances TV and PC experiences," said Mr Maffei.

The Microsoft investment also reflects the company's growing involvement in the creation of "content" for the internet and TV.

Microsoft's joint venture with General Electric's NBC television unit, MSNBC, distributes news over cable TV and the internet and Microsoft also recently signed a $425m deal to buy WebTV Networks,

Continued on Page 20
TCI in $1bn deal, Page 24
Lex, Page 20

S Korean motor industry attacks Samsung proposal

Car producers protest at call for tax move to boost mergers

By John Burton in Seoul

The South Korean motor industry association has criticised a proposal by industrial conglomerate Samsung that the South Korean government encourage consolidation in the car industry.

Samsung, which is scheduled to begin car production next year, had suggested that the authorities introduce tax incentives to encourage mergers in an overcrowded industry facing weak domestic sales.

In a sharply worded statement, the Korea Automobile Manufacturing Association called Samsung an "upstart" which threatened to disrupt the industry. It added that any restructuring should be left to market forces.

Other manufacturers fear Samsung could be seeking government support for hostile takeover bids against either Kia or Ssangyong, South Korea's third and fourth-biggest carmakers.

With difficult trading conditions in the industry, a number of Korean car companies already face financial strains which are likely to increase in 1999 following the removal of a ban on the import of Japanese cars.

Many analysts believe that Korea can support only two or three carmakers, with Hyundai and Daewoo, the two biggest, thought most likely to survive any shake-up.

Samsung had already made an unsuccessful effort to take over Kia in 1994, and earlier this year the company had talks with Ssangyong Motor over a possible merger.

Samsung recently identified Kia, the nation's third-biggest carmaker, as vulnerable to a renewed takeover bid, claiming the company's finances were weak and that it had reached its sales peak.

Ssangyong is also considered susceptible to takeover because it is heavily indebted and has suffered five years of losses.

However, both Kia and Ssangyong are threatening to sue Samsung for libel over its contention that these two companies should be the main targets for a restructuring of the industry. Kia said Samsung was spreading malicious rumours which were damaging its sales and reputation.

Kia also questioned the future of Samsung Motors. It argued that Samsung had problems securing components and said it may also be encountering financial difficulties.

It added that Samsung desperately needed to acquire another carmaker because "it has run into problems securing technology and dealers" for its $5bn move into carmaking.

Analysts say that to be competitive Samsung needs to expand its productive capacity and achieve economies of scale similar to those of Hyundai and Daewoo.

Samsung Electronics is the main financial supporter of the move into car manufacturing, but its earnings have dropped sharply because of the fall in the price of computer memory chips.

Tigers in tanks, Page 19

Feuding German coalition vows to stay intact

By Peter Norman in Bonn

Chancellor Helmut Kohl's Christian Democratic Union and the Free Democrat party, its junior coalition partner, vowed yesterday to stick together despite policy disputes that have contributed to the worst internal crisis in the government's 14-year history.

As leaders of the CDU and FDP met separately in Bonn to discuss their difficulties, there was little sign that the two sides were narrowing their differences.

Reflecting CDU irritation with the smaller party's persistent refusal to contemplate tax increases to resolve Germany's budget problems, Mr Peter Hintze, the CDU general secretary, called on the FDP to stop "repeating its one-sided views in a ritual manner" and adopt "the principle of flexible response" in financial policy.

But less than an hour later Mr Guido Westerwelle, the FDP general secretary, again insisted his party would refuse all tax increases on the grounds that they would damage the economy and reduce the chances of cutting unemployment from its current seasonally adjusted record of 4.36m.

Although the two general secretaries agreed that there was no alternative to the present coalition, both admitted strains. Mr Hintze sidestepped questions over whether Mr Kohl had threatened to resign last week with assurances that he was tackling present problems "with his full energy" and would lead the coalition into the next election. The CDU general secretary described relations in the coalition as "stressful but purposeful", while Mr Westerwelle said this would be "no easy week".

The coalition has given itself until the cabinet meeting on July 10 to draft a budget for 1998 that holds new borrowing below next year's planned federal investments

Continued on Page 20
A two-speed carriage, Page 18
Observer, Page 19

CONTENTS

LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

Stability pact proves an unstable area

The French call for delay bodes ill for next week's EU summit, writes Lionel Barber

Not for the first time, the Franco-German debate over how best to proceed with economic and monetary union has exposed a gulf between the political cultures of two countries.

At issue is the German-inspired budget stability pact, whose purpose is to guarantee strict fiscal discipline in the future euro zone. Six months ago, at a European Union summit in Dublin, the French and Germans reached a hard-fought compromise over the terms of the pact.

Now France's new leftwing government has called for more time to consider whether to approve the final text of the Dublin accord. Although EU finance ministers expressed sympathy yesterday for the request, the timing could hardly be more awkward.

Germany's centre-right coalition government, which is struggling to meet the Maastricht deficit targets for Emu, finds itself with little margin for manoeuvre. The Christian Social Union coalition partners in Bavaria are calling for a delay in Emu rather than a dilution of the entry criteria.

In six days' time, in Amsterdam, EU leaders hope to wrap up an agreement reforming the Union's institutions and decision-making procedures ahead of enlargement into central and eastern Europe. The French moves increase the risk that the summit and Emu will become entangled.

France's behaviour can be explained partly by the dynamics of last month's parliamentary election campaign, and partly by the ever present ambiguity of the French towards a monetary union forged largely on German terms.

Mr Lionel Jospin, the Socialist leader, won an upset victory by promising jobs, growth and relief from Maastricht-style deflation, which the previous coalition insisted was vital for the timely launch of Emu on January 1, 1999.

"Jospin is a Protestant," said an EU diplomat. "He will not abandon his promises lightly."

Even though the French have avoided calling the Emu timetable into doubt, they want less emphasis on the German model of an independent central bank and more on elected politicians guiding macroeconomic policy in the euro zone. Socialists and Gaullists think alike on this point. Hence, their respective calls for an "economic government" and a "stability council", each of which is code for a ministerial counterweight in Brussels to the future Frankfurt-based central bank, portrayed by the Germans as the guarantor of a safe, stable euro.

For the Socialists, an economic government means explicit recognition of the primacy of growth and employment in policymaking. They hope to breathe fresh life into Articles 102a and 103 of the Maastricht treaty, which require member states to regard their policies "as matters of common concern".

Despite fears that France's demands cannot be met without unpicking the entire stability pact, one senior German diplomat expressed guarded optimism that the new French government would come round to German-style macroeconomic discipline.

"[President François] Mitterrand took two years, and Chirac and Juppé took six months," he said. "Maybe Jospin will take two months."

Mr Philippe Maystadt, Belgium's finance minister, believes a deal is possible, provided all parties are ready to exercise imagination and goodwill in the application of Article 103.

He stressed that member states were moving towards greater economic policy co-ordination as they approached the Emu deadline. This applied not only to budgetary discipline but also to areas such as taxation, where the incoming Luxembourg presidency is preparing a new initiative.

Finally, the British government – which to date has played the most minor of parts in the Emu drama – could carve out a useful role in bridging the gap between Bonn and Paris.

Mr Gordon Brown, UK chancellor, yesterday submitted a paper to other finance ministers which calls for a reinvigorated EU-wide jobs policy based on flexible labour markets. Without such flexibility, he warned, Emu would not work.

Mr Brown also argued that fiscal discipline could be reconciled with an active labour market. This is one leap in leftwing doctrine which the more diehard French Socialists have yet to make.

Yet even in this narrow respect, the Labour initiative carries risks. For the more successful the British are in making Emu viable, the more pressure they will face to come off the fence when the choice of Emu members is made – in spring 1998, when they hold the rotating EU presidency.

Brussels urges action to avert pensions crisis

By Emma Tucker in Brussels

The European Commission will today urge member states to confront the looming crisis in EU pensions provision by liberalising their pensions industries and encouraging private supplementary schemes. In a long awaited green paper, it suggests only radical action will ensure future pensioners enjoy similar retirement incomes to those of today.

The robust message is likely to receive a cool reception from countries such as France and Germany, which still impose tight restrictions on pensions investments.

These countries, worried about a political backlash at home, were instrumental in shooting down previous Commission proposals to liberalise pensions. Only Britain, Ireland and the Netherlands have fully liberalised their industries.

Nonetheless, there is a growing realisation in member states that alternative financing needs to be found to maintain retirement income levels as the number of elderly grows in the EU. The paper forecasts that by 2040 there will be only two people of working age to support each pensioner. Today there are four.

"Member states are more aware of the shortfalls on funding than they were before, so the Commission could now be pushing against a more open door," said Mr Geoffrey Furlonger, head of the EU practice of William M Mercer, a pensions consultancy.

The paper, drawn up by Mr Mario Monti, the single market commissioner, focuses on how to improve the return on pension investments without compromising their integrity.

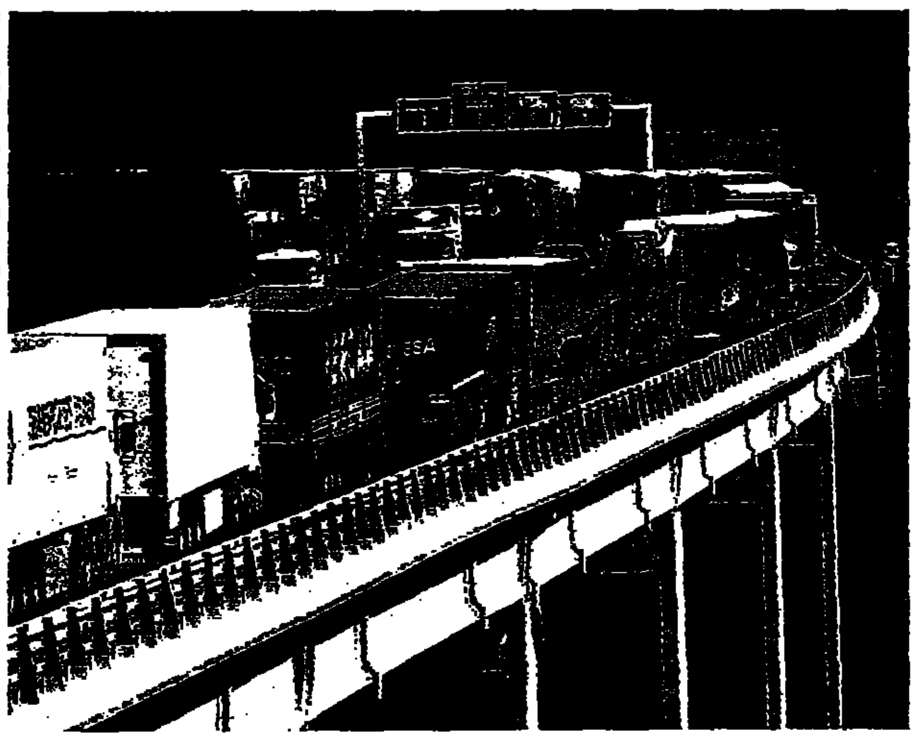
In an effort to persuade member states to back an EU-wide liberalisation initiative, Mr Monti points out that if the real rate of return on a pension fund investment is 4 per cent, it requires 10 per cent of salary to finance a pension amounting to 35 per cent of salary. If the rate of return is increased by 2 per cent the cost falls to just 5 per cent of salary. This also reduces the burden on employers and has a positive effect on jobs.

"The potential exists for many EU pensions funds to increase their current rate of return by diversifying and increasing the share of equities in their portfolio," says the paper.

At present, member states which impose restrictions on investments argue that they are the most prudent way to protect the fund. However, the curbs, which have prevented the development of a single market in supplementary pensions, are criticised for being protectionist. "Governments rely on them to finance their public debt," said one industry expert.

In Britain, Ireland and the Netherlands, there are no investment restrictions but a regulatory watchdog oversees pension funds.

The paper now goes out to consultation until the end of the year. The Commission will then judge whether to bring forward EU-wide proposals to bring about a single market in supplementary pensions schemes.



Truck protest disrupts traffic across Europe

French truck drivers set up dozens of frontier barricades on Monday, spearheading a European day of action for better pay and conditions that disrupted traffic from Germany to Portugal.

French drivers, often co-operating with European neighbours, parked lorries across roads at the Spanish, Italian, German, Belgian and Swiss borders. In many places only private cars were allowed to pass the blockades, which caused huge tailbacks.

Spanish truckers blocked three crossings with France and one with Portugal as part of the push to secure new European Union rules limiting working hours and standardising benefits such as sick pay and earlier retirement. Drivers also set up dozens of barriers inside France, hitting traffic around Paris and other large cities in the action called by the International Transport Federation. Many of the blockades were dismantled around midday. *Reuter*

Cereal farmers given too much aid, says report

By Neil Buckley in Brussels

The European Union has over-compensated cereal farmers by Ecu8.5bn ($9.6bn) in the past four years for falls in prices which never happened, according to an internal European Commission report.

The figures – the first time they have been calculated by Brussels for the entire EU – confirm cereal farmers have received far higher aid payments than they should have because market prices did not fall as expected in recent years.

Over-compensation is calculated at Ecu510m in 1993-94, Ecu2.01bn and Ecu3.93bn in the next two years, and Ecu2bn in 1996-97.

The report provides further ammunition for Mr Franz Fischler, agriculture commissioner, who is calling for a cut in arable aid to fund support for the beef sector. Beef sales and prices have slumped as a result of the "mad cow" crisis.

"We need money for the beef aid, and too much money is being given to cereal farmers," said one Commission official.

The Brussels figures reckon the compensation at a far lower level than the Ecu17bn estimated in an unpublished study by the UK Agriculture Ministry reported in the FT in April.

The Commission report says the UK analysis contained errors in calculating farm areas and yields, and included maize grown for silage – excluded by Brussels. The UK's methodology also differed slightly.

But officials suggest the overall message remains that cereal farmers have been "massively over-compensated" to the tune of billions of ecus.

Mr Fischler is calling for a 7 per cent cut in arable aid and payments for set-aside land. This would raise about Ecu1.4bn next year, more than covering the Ecu1.3bn targeted for beef.

He faces severe opposition, however, both from the European Parliament, which debates the issue today, and from ministers, who meet to discuss the proposals in a fortnight. Only Britain and Sweden have voiced support.

Opponents and the cereal lobby cite a guarantee given in 1992, when the common agricultural policy was reformed, that aid would not be reduced. The guarantee is disputed by the Commission.

"The cereal lobby is very strong everywhere, and includes very big producers," said the official.

Ministers predicted market prices would fall when they reformed the CAP, and agreed cuts of up to 30 per cent between 1993 and 1995 in the "intervention price", or price at which the EU buys surplus cereal stocks.

EU market prices have not fallen in line with the cut in the intervention price, because of lower production than expected, and world cereal shortages caused by poor harvests and drought.

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Milosevic grabs two lifebelts to help keep himself afloat

Guy Dinmore on the Serb leader's manoeuvres to retain power

Two questions have dominated Belgrade's independent media recently: how will President Slobodan Milosevic prolong his 10-year grip on power after his second and final term expires; and will Italy throw his bankrupt government a financial lifeline?

Both have now been answered – and once again Mr Milosevic and his ruling Socialists have shown they are still the dominant force in Serbia despite being weakened by a winter of mass anti-government protests.

First, the Socialists revealed that Mr Milosevic, who is constitutionally barred from a third term, intends to transfer his power base to the Yugoslav federal presidency. To give this currently symbolic post a veneer of democratic legitimacy the party proposes that the federal president be elected directly by Serbian and Montenegrin voters, rather than by the federal assembly as at present.

The financing issue was decided yesterday, when the government signed away 29 per cent of state-owned Telecom Serbia to Stet of Italy and 20 per cent to OTE of Greece, after months of tortuous negotiations. Analysts say the DM1.57bn ($900m) deal, the biggest sale to date of Serbian state assets, has come just in time for Mr Milosevic. The low price, they add, reflects the high risk attached to Serbia and the president's pressing need to raise cash ahead of elections – not least to pay the wage arrears of angry potential voters.

Health workers, teachers and some engineering workers are on strike – not for more money but for payment of salaries owed to them. Pensioners have taken to the streets to demand three months of back payments. Unemployment is running at about 50 per cent. Gross domestic product per capita, at about $1,600, is barely half the 1989 level.

"They must find the finance to fill the black holes in the economy," said Mr Goran Pitic, head of research at Belgrade's Economics Institute. With Serbia still blocked by the US and European Union from entry to the International Monetary Fund, the sale of state assets is about the only route left to Mr Milosevic to avert a summer of labour unrest.

Mr Danko Djunic, federal vice-premier, insists the government is committed to real economic reforms. A revised draft law on privatisation would be presented to MPs this month, he said, while legislation was being prepared on issuing government bonds to cover repayment of frozen foreign currency accounts.

"We have overcome hardline opposition to the privatisation law within the regime," said Mr Djunic, a non-party economist recruited by Mr Milosevic in March to lead a group of reformist technocrats.

Analysts doubt, however, that radical economic or political reforms will be implemented before this year's elections. They believe Mr Milosevic has a good chance of winning the elections, thanks to his tight control of nationwide media and the disintegration of the inaptly named Zajedno (Together) opposition coalition because of personal rivalries.

Events will gather pace when the term of the current Yugoslav president, Mr Zoran Lilic, a Milosevic loyalist, ends on June 25. A senior Socialist said he expected the post to be filled by the assembly speaker until an election late this year at the same time as voting for the Serbian president and parliament.

In the meantime, Mr Milosevic is expected to continue with his gradual transfer of powers from the Serbian to the Yugoslav presidency, possibly by changing the federal constitution if he can secure the support of his divided Socialist allies in Montenegro.

There he faces strong opposition from Mr Milo Djukanovic, Montenegro's prime minister, who has emerged the victor in a political battle with Mr Momir Bulatovic, president of Montenegro and a Milosevic ally.

"Montenegro has enough institutional power to oppose Milosevic's absolutist rule," Mr Djukanovic said last week, noting that Montenegro, with a population less than a tenth that of Serbia risked losing its influence in the federal assembly if the Yugoslav president was directly elected by the people.

The Montenegrin leadership is due to hold a crucial meeting tomorrow to discuss the Serbian proposals.

Whatever the immediate outcome, however, Mr Milosevic is unlikely to be seriously challenged. "There is still no real alternative" said one senior western diplomat.

"Slobodan Milosevic has presided over 10 years of a disastrous decline in Serbia's fortunes through war and destruction of the economy. But according to the latest opinion polls he is still the most popular politician in Serbia."

Serb telecom deal, Page 26

Pressure mounts for Slovakia to devalue

By Vincent Boland

Slovakia was under pressure yesterday to depreciate its currency, the koruna, despite the insistence of Mr Vladimír Mečiar, the prime minister, that a devaluation was not imminent.

As the central bank continued to clamp down on koruna trading by squeezing liquidity and keeping interest rates unprecedentedly high, Mr Mečiar told the daily Narodná Obroda: "We are neither planning nor considering a devaluation."

However, Slovakia is now seeing a build-up of factors similar to those that forced the Czech Republic to float its currency last month.

It had a current account deficit of 10 per cent of gross domestic product in 1996, higher than the Czechs'. The trade deficit reached Sk28bn ($834m) for the first four months of this year, sparked by strong domestic demand and high wage settlements. Interest rates are at levels widely considered unsustainable.

Some 30 per cent of Slovak trade is with the Czech Republic. After Prague floated the koruna it fell more than 10 per cent, putting Slovak exporters at a disadvantage.

There are also increased trade tensions between the two countries. Bratislava has approved measures to raise restrictions on imports that would affect Czech food and beer exports to Slovakia, following Prague's decision in April to put its own restrictions on imports.

"There is every reason for the Slovak koruna to be weaker than it is," said Mr David Lubin, currency specialist at HSBC Markets in London. "The NBS [central bank] is creating an atmosphere of calm by keeping monetary policy extremely tight. But that could have unsustainable consequences for the domestic economy."

More important in the short term for the bank is a sharp fall in official foreign exchange reserves, which stood at $2.7bn on June 4, down some $800m from a month earlier.

The main difference from events in the Czech Republic is that the Slovak central bank has pursued a more restrictive monetary policy which thas earned it much admiration.

Mr Martin Barto, economist at ING Barings in Bratislava, said continued uncertainty over the direction of the Czech koruna was a complicating factor for the Slovak bank. But time was not on its side and a change in the koruna's trading band, which allowed it to fluctuate 7.5 per cent either side of a fixed level against a hard-currency basket, might be necessary in the next three weeks.

He added that a tightening of fiscal policy might have to follow to prop up the currency in the markets, posing a political challenge for Mr Mečiar. "I don't know if the government is ready to take drastic measures. Probably not."

EUROPEAN NEWS DIGEST

French lobby loses case

An association which defends French against the encroachment of other languages yesterday pledged to appeal after losing a case against two retailers and a university it accused of communicating in English.

The Paris police tribunal struck down on a technicality an attempt by the association to sue Body Shop, the cosmetics chain, Interdiscount, which sells electronic games, and Georgia Tech Lorraine, an offshoot of the US-based Georgia Institute of Technology, for breaching the 1994 *loi Toubon*. The law toughened the requirement for companies and organisations – including those which are based in foreign countries – to use French on their products and in their communications in France.

The judgment issued yesterday upheld Georgia Tech's defence that prosecutions under the law could only be brought by the public prosecutors' office after a referral from government officials, and not directly by the network of associations which fight for the protection of the French language. The Association for the Defence of the French Language, one of the organisations which brought the case, said last night that it would appeal, and called for a modification in the law to clarify its powers to intervene. *Andrew Jack, Paris*

Contenders line up for CSI

Seven international groups have been invited to bid for management control of CSI Corporación Siderúrgica, the last big steelmaker in the European Union still in state ownership, Spanish officials said yesterday. The government is putting a total value of about Pta200bn ($1.37bn) on the company, which had net earnings of Pta15.6bn last year on sales of Pta306bn.

Officials said the foreign partner would initially take a 30-35 per cent stake, with a further 10-15 per cent going to Spanish industrial interests and the remainder floated on the stock market. The foreign stake might later increase through the conversion of bonds, subject to the fulfilment of industrial plans, the officials said.

Contenders include US Steel and the six main EU steel producers – British Steel, Usinor Sacilor of France, Germany's newly-merged Thyssen Krupp Stahl, the Italian Riva-Ilva group, Arbed of Luxembourg and Hoogovens of the Netherlands.

Unions in the northern Asturias region, where CSI has its main steelmills, have called a public sector strike on June 26-28 against the "bargain-basement sale" of the company, which employs 11,900. Local politicians of Spain's ruling Popular party also want to overturn the plan. *David White, Madrid*

Germans study equity culture

Germany should allow foreign finance houses a bigger role in forging the country's equity culture, including helping establish an effective "alternative market" for fledgling entrepreneurs, according to a government advisory committee report.

It says Frankfurt's Neuer Markt, which was launched in March for smaller businesses, does not go far enough towards improving access to capital markets because it requires a minimum share issue of DM10m ($5.7m). Mr Manfred Neumann, chairman of the federal economic ministry's advisory council, blamed German banks for having a "restrictive vision" of when companies were ready to go to the stock market.

The report calls for their representation on stock exchange committees to be reduced and for the lifting of barriers on foreign share issuing houses wanting to set up in Germany. *Ralph Atkins, Bonn*

Swiss move on smuggling

Switzerland has agreed to co-operate more closely with the European Union in the fight against international smuggling. After three years of discussions it has signed a customs control agreement with the EU which will take effect on July 1.

The deal, which is in the form of an additional protocol to the 1972 free trade accord between Switzerland and the European community, allows Swiss customs authorities to exchange more information and gives them additional powers. The new agreement will also extend surveillance over individuals or companies suspected of being involved in smuggling. Switzerland is an important transit point for traffic between the north and south of Europe and customs controls at its border crossings will give customs officials an additional checkpoint. Yesterday's agreement is unrelated to long running negotiations for closer trade ties between Switzerland the European Union which are currently deadlocked because of a disagreement over transport issues. *William Hall, Zurich*

Communists win in Bryansk

Communist candidates dominated local elections over the weekend in Bryansk, an agricultural region south of Moscow, as voters took their frustration with Russia's prolonged market reforms to the ballot box. Mr Nikolai Sarvivo, former Communist first secretary of the city and a Communist party candidate, was elected mayor of Bryansk. The Communists also dominated elections to the city council and to the leadership of nearly 400 towns and villages in the region. A strong Communist showing is traditional for Bryansk, which is part of Russia's leftist red belt. However, the Communist sweep of the region comes at a particularly embarrassing moment for the Kremlin, which is hoping that this year market reforms will bring a material improvement to the lives of ordinary Russians. *Chrystia Freeland, Moscow*

French market 'least popular'

France is the least popular market in an increasingly unpopular European investment market, according to a Gallup survey of fund managers in June commissioned by Merrill Lynch, the US investment bank.

In its May survey the French market was the second most popular in Europe after Germany, which remains the most popular. However, the June survey was begun after the French Socialist party'selection victory and this may explain why fund managers overwhelmingly intend to move funds away from Europe, said the investment bank's global strategist Mr Bijal Shah.

Sellers of European equities now outnumber buyers in the US and in the UK. They also outnumber buyers in continental Europe for the first time since the survey started. *AFX, London*

Post-Emu collapse would be 'catastrophe'

Concern rises over nightmare scenario

Preparing for Emu

European monetary officials are preparing for almost every conceivable aspect of economic and monetary union. But there is one scenario that they are not preparing for: Emu goes ahead on time only to break up a few years later. "It is unthinkable, it can't be allowed under any circumstances. It would a catastrophe," a German official said.

Several economists, including those who support Emu, are starting to express concern about the economic implications of a currency union that is no longer based on a consensus over fiscal policy between France and Germany.

Mr Thomas Mayer, chief German economist of Goldman Sachs in Frankfurt, has just produced an in-depth report highly critical of the lack of "real" convergence – a reference to varying growth and unemployment rates.

He thinks the post-Emu adjustment process could prove divisive.

Mr Mayer said: "At present there are no signs that the politicians, especially in the larger continental European countries, understand the need for substantially greater wage flexibility in Emu."

Later efforts to adjust could lead to conflict, writes **Wolfgang Münchau**

He predicts that the first economic consequence of Emu could be increases in unemployment in some states.

This analysis is shared by Mr Günther Thumann, a senior Emu adviser at Salomon Brothers in London and a former top official in the German economics ministry. He has come up with a long-term scenario predicting potential conflict between fiscal and monetary policy between France and Germany that could lead to instability within the Emu zone.

Previously, the most frequently cited economic argument against Emu was the risk of so-called asymmetric shocks – shocks that affect some countries but not others. Past examples include German unification.

With Mr Lionel Jospin, the new French prime minister, questioning Emu's core economic policy foundations, a new concern has arisen: Germany and France may be pursuing fundamentally incompatible economic and fiscal policies.

Mr Jospin has criticised in particular the strict independence of the future European central bank (ECB), the strict application of the Maastricht treaty's qualifying criteria and the stability and growth pact to restrict deficits in a future monetary union.

Mr Mayer of Goldman Sachs argues that Germany cannot accept a concession on these three key factors. "A violation of these points would probably again trigger an intervention by the Bundesbank, which the government will want to avoid after the recent experience," he said, referring to the government's climbdown over its plan to revalue the bank's gold reserves. The likely thrust of France's new economic policy is a return to some form of demand management, for example to finance jobs programmes.

Germany, by contrast, remains committed to low deficits – at least in principle – and is instead pressing on with structural reform, albeit slowly.

Germany has pressed ahead with privatisation and some labour market deregulation, and tax and pension reform are still on the agenda.

If the two countries' fiscal positions were to diverge in the long-run, this could lead to monetary misalignments. The risk is proportional to the degree to which the ECB would tighten EU-wide monetary policy as compensation for lax fiscal policies in one or more member states.

For example, if the ECB were to raise euro interest rates because of high fiscal deficits in France and Italy, German economic growth would be constrained and unemployment kept higher than would be the case under a national monetary arrangement. Pressure to bring back the Bundesbank would mount.

Looking further ahead into the post-1999 world, Mr Thumann of Salomon Brothers predicts that Emu will go ahead on time, that it will work in the short run, but that problems would arise later.

He says these are compounded by Europe's inability to embrace wage flexibility: "I am concerned that Europe will not be able to agree on such a model. The danger is that our divergent fiscal policies will ultimately lead to conflict with monetary policy under a system where wages can only move upwards. The consequence of this would be negative feedback, a vicious circle that can lead to great conflicts between the participants of monetary union. In an extreme case it can lead to one or several members leaving," he said.

In his analysis on real convergence, Mr Mayer of Goldman Sachs depicts differing labour market policies throughout the EU as an obstacle. "It is rather likely that the first asymmetric shock after the beginning of Emu will create labour market crisis in the affected countries," he said.

While the nightmare scenario of a collapsing Emu is not inevitable, its likelihood has risen as a result of the French elections. A consensus is gradually gaining ground that something will have to give: it could be the timetable, it could be French economic policy, or it could be Emu itself.

Calling a central bank to account

Everyone agrees that the future European central bank will be powerful, but will it be accountable? And to whom?

Step forward Christa Randzio-Plath, flame-haired socialist, campaigner for women's rights, and president of the monetary affairs subcommittee in the European Parliament.

With little fanfare, Ms Randzio-Plath and her fellow MEPs are gradually carving out a role for themselves in the world after economic and monetary union. Their goal is to establish the parliament as the body best-placed to exercise a degree of supervision over the future central bank, not just on routine issues such as staffing, but on core policy such as the setting of interest rates.

MEPs led by Christa Randzio-Plath (right) want a supervisory role over the Emi, and not just on routine issues, but on core policy matters as well

Mrs Randzio-Plath's model is the US. She recently visited Washington, and cites with approval the Senate confirmation hearings for nominees to the board of the Federal Reserve, and the twice-yearly congressional testimony of Mr Alan Greenspan, the Fed chairman.

During the Maastricht treaty negotiations in 1991, EU member states insisted on limiting the parliament's role in Emu preparations to an advisory one. But, next year, things are likely to change.

First, the parliament is entitled to give an opinion on which countries qualify for Emu according to recommendations by the European Commission and the European Monetary Institute (Emi), forerunner of the central bank. EU leaders will make the final choice in May.

Shortly afterwards, MEPs will hold hearings on their nominations to the post of president of the ECB, the vice-president, and the other four to six nominees to the executive board. Depending on how forthcoming the nominees are, the hearings could offer clues on future monetary and exchange rate policy for the euro.

Mrs Randzio-Plath's committee showed the way in 1994 when Mr Alexandre Lamfalussy, the nominee for president of the Emi, used his hearings to expound on the role of the Emi. His successor, Mr Wim Duisenberg, the favourite to take over the top ECB job, was a little more circumspect.

The most difficult task will be to persuade the ECB to give a public explanation for its monetary policy decision, says Mrs Randzio-Plath. Again, she favours US-style transparency, noting the federal open market committee's practice of publishing the minutes of meetings six weeks after the event. But she concedes that the ECB, especially in its first year or so, may want a longer delay in order to build confidence in the financial markets.

Much will depend on building reciprocal confidence with parliament which still labours under the reputation of being a bit of a travelling circus shuttling between its two homes in Brussels and Strasbourg.

"The Parliament needs to be more mature," says one Commission official. "It needs to look at the substance rather than seeing every issue as an excuse to grab more power."

Such comments reflect unease over MEPs muscling into negotiations in the stability and growth pact, the accord on fiscal discipline in the post-Emu world hammered out last year at the EU summit in Dublin.

The parliament adopted several amendments which were largely ignored by the Council of Ministers; but Mrs Randzio-Plath claims the Council has since agreed that public investment should be taken into account during assessments of deficits; and she is pressing for the fines on fiscal delinquents to be distributed to the EU budget rather than shared out among the fiscally sound members of the euro zone.

Last week's titanic clash between the Bundesbank and the German government over plans to revalue Germany's gold and foreign exchange reserves foreshadowed the tensions between elected politicians and unelected professionals concerned about the stability of the currency.

But Mrs Randzio-Plath is unapologetic about her institution's ambitions. "We are a parliament in development. We have to persuade other institutions that we have a role to play in terms of democratic legitimacy because monetary policy is never neutral. It affects growth and employment."

Lionel Barber

Cost to banks of euro switch 'over-estimated'

By David White in Madrid

The cost to banks of switching to the euro will be less than expected, according to a study team at Banco Bilbao Vizcaya, the Spanish banking group.

An internal report at the bank shows that estimates produced for a Europe-wide survey by the European Banking Federation in 1995 were overstated by as much as 50 per cent.

Its conclusions challenge the forecast made by Banco Central Hispano of an adaptation cost for the Spanish banking system of Pta180bn ($1.2bn). Mr Juan Bengoechea, leader of the euro task force at BBV, suggests the figure is much lower, possibly around Pta110bn ($750m).

The BCH figure was based on the overall estimate drawn up by the federation, which reckoned the burden for the whole European Union banking sector would be equivalent to about 2 per cent of annual operating costs over three or four years.

This outlook was based on the expectation of a rapid changeover, but the setting of a three-year transition and a six-month overlap for the introduction of euro notes and coins was seen as increasing costs substantially.

In addition to the adaptation costs, BCH estimated that the introduction of the euro would take away annual business worth about Pta94bn.

The BBV report concludes that the group's own costs will be around Pta12bn, compared with its initial estimate of Pta18bn.

Moreover, the bulk of this figure – more than Pta7bn – is expected to be in opportunity costs, resulting from the diversion of effort to implement the changeover, rather than real costs that would directly affect the group's profit and loss accounts.

Direct costs, according to the report, are now expected to work out at only 27 per cent of the original Pta18bn estimate. The report underlines the importance of adequate planning to keep opportunity costs to a minimum.

Mr Bengoechea said that the task of converting to the euro would be more complex for smaller banks, including many of Spain's savings banks.

They would have a higher proportion of real costs because they lacked the staff resources and would have to take on extra personnel to prepare for the changeover.

The BBV team expects over half its direct costs to come in the field of information technology, with training accounting for just over 20 per cent.

But the bulk of the expected opportunity costs – more than 60 per cent – are in the training area.

Observer doubts hit Algeria poll image

By Roula Khalaf in Algiers

A critical report by international observers on the Algerian elections has pointed to doubts over Algeria's efforts to project an image of "democratisation".

A summary of the report, which was released late yesterday, omits a general statement – expected by both the army-backed government and western embassies in Algiers – that pointed to problems and irregularities but deeming the vote was generally fair.

The report flags two main problems. The first is that several of the 106 observers were not allowed to move freely, as they had been promised, nor attend the vote collections in four of the 48 *wilayas* or provinces.

The second is that many felt the voting by the police and armed forces was not neutral or transparent enough. It was also skewed, often heavily, towards the National Democratic Rally (RND), the pro-government party created three months ago. Some also considered that voting in mobile stations was sloppy compared to the discipline witnessed in the regular voting bureaux.

The report makes clear that there was a split among observers. Many did not encounter serious problems and were ready to give the elections a clean bill of health. Several others, however, including experienced US and Italian observers, had serious doubts. Some feared, as the opposition had warned before the elections, that the armed forces vote and those at the mobile polling stations would be used to manipulate the final outcome, which gave pro-government parties a majority in the new legislature.

Western diplomats have insisted that the legislature could still be made to work

Western governments have long believed conditions for elections of a lower house with limited powers were less than perfect. Held in a climate of continuing violence, they were meant to replace 1991 elections cancelled by the army that the now banned Islamic Salvation Front (FIS) was poised to win. After much hesitation and US encouragement, several European countries agreed to send a small number of observers – 106 in all – to act as a deterrent against manipulation of the vote, in the hope that tensions would be eased and that the new legislature would be seen as a first step towards democracy.

Western governments were yesterday trying to play down the impact of the report, and diplomats insisted the legislature could still be made to work. But the doubt cast by the report will be used both by political parties in Algeria and outside critics of the Algiers government to persuade the west – especially the European Union now negotiating an agreement with Algeria – to apply pressure on the Algerian authorities.

Algeria's opposition parties have denounced the results and accused the government of "massive fraud" to inflate the score of the pro-government RND, which emerged with 40 per cent of seats in the lower house.

Algerian officials insisted yesterday the report was unfair because the criticism was due to problems encountered only by some observers. They pointed out that voters in special forces and mobile stations made up just over 800,000 of the total 10.5m who voted, or less than 10 per cent, and that the figures of the United Nations, which was co-ordinating the work of the observers, showed that out of 1,307 bureaux visited, 1,169 were considered "satisfactory".

The observers who faced problems, however, disagree with the analysis. First, because they believe the evaluation forms they were required to fill did not reflect the "quality" of the elections.

Second, even if most of the rigging took place only in the voting of special forces, they argue, the impact could be larger than the number of voters suggests. This is because the armed forces appeared obliged to vote, which often led to a turnout of nearly 100 per cent, almost all of it going to the RND. The civilian turnout being much lower, the vote of the special forces could have disproportionally skewed the distribution of seats in some *wilayas*, observers say.

Shadow falls over Nigeria gas project

A conjunction of money, oil and politics has hit a big African project


Gas being flared in the Niger Delta. The LNG project offers a way to combat environmental problems

It is a script which for melodrama and confusion could grace a Mexican soap opera. Money, oil and politics have come together to cast a shadow over the $4bn Nigeria Liquefied Natural Gas scheme – not only Africa's single biggest engineering project, but one of the most ambitious undertakings ever launched to exploit the continent's natural resources.

NLNG Ltd, the joint venture formed by three western oil companies and the state-owned Nigeria National Petroleum Corporation (NNPC) to run the project, is in trouble. Despite a carefully constructed corporate structure intended to limit overt political interference, it has fallen victim to the vicissitudes its founders tried to avoid.

A year after construction began at the site on Bonny Island on the coast of south-east Nigeria, and two years away from its promised date for entering production, the company is without a board of directors. The question of who now controls it and through what mechanism is a matter of conjecture.

Its three western shareholders – Royal Dutch/Shell, Elf of France and Agip of Italy – are still reeling from the recent announcement by Mr Dan Etete, Nigeria's petroleum minister, who controls the state's 49 per cent stake in NLNG. He dissolved the board and ordered NLNG's management to report directly to his office.

The project has had one of the longest gestations of any LNG project anywhere. Conceived 30 years ago, various proposals have foundered over concern about political interference, the choice of foreign partners and questions of funding.

The obstacles were finally overcome only 18 months ago, when, in the face of the controversy surrounding the military government's decision to execute Mr Ken Saro-Wiwa, the Ogoni rights activist, shareholders agreed to go ahead with NLNG.

The project was seen as the answer to several problems. First, it was a way to tap Nigeria's vast potential as a gas producer and to position the country to compete in the world LNG market, one of the fastest growing segments of the international energy sector.

But it also offered a way to combat the environmental problems caused by the controversial flaring of the vast amounts of unwanted natural gas produced alongside the oil in the Niger Delta.

Mr Theo Oerlemans, NLNG's managing director until earlier this year, said the signing of long-term supply contracts with foreign customers and Nigeria's decision to allow a majority foreign shareholding – intended to deter government interference – were the main factors that led to the project being launched.

The partners also agreed to put up the capital in advance and place it in a foreign-held escrow account. That was meant to avoid the perennial problem in Nigeria's oil sector of NNPC failing to come up on time with its share of the funding of joint ventures. Mr Etete's actions have dashed the assumption that such a structure was the key to ring-fencing the project.

NLNG has also suffered from doubts over its supply contracts. It November Enel, Italy's state electricity generator, withdrew from a 22-year contract to buy 3.5bn cubic feet annually, about half the Bonny plant's initial output, ostensibly because of environmental objections to the site of its proposed LNG receiving terminal.

NLNG is still pursuing arbitration proceedings against Enel, much to the consternation of Mr Etete, who claimed to have rescued the deal after a visit to Rome in March.

Given the confusion over the status of the board of directors, it is not clear how NLNG will be able to respond to new proposals from the Italians to find a way around the contractual impasse. These are thought to call for the gas to be landed in France, then piped to Italy.

Western companies, which have already deposited nearly $2bn in escrow accounts, are refusing to react publicly to Mr Etete's decision. "Less said, soonest mended," said one official. But he acknowledged that while construction work will continue, the confidence so critical for the project has been seriously undermined.

While Shell, Agip and Elf are anxious to meet the minister, the military government's present preoccupation with the recent coup in Sierra Leone, may make it difficult to secure the necessary interest at the highest level to clarify the situation.

Since his announcement, Mr Etete has refused further comment on NLNG. He is reported confident of enough political support to counterbalance any legal uncertainty over dissolution of the board.

The NLNG dispute is the latest indication of deteriorating relations between Mr Etete and the western companies that produce Nigeria's 2m barrels of oil a day. Mr Etete secured only $2bn from the federal budget for the oil sector this year, 40 per cent less than his partners deemed necessary to promote expansion.

Western companies further complain the ministry has stalled on agreeing operating budgets and has let arrears build up.

The oil minister claims Nigeria is not receiving a fair deal from western companies. But his tenure has coincided with deteriorating conditions in Nigeria's most important industry.

Escalating violence among oil-producing communities, labour unrest, falling production and nation-wide shortages of petrol indicate all is not well in an industry which provides 90 per cent of the country's foreign exchange earnings.

Mr Etete justified his latest action in the interests of "transparency and accountability," but the NLNG affair (while characteristic of the present state of relations between Nigeria and its partners in the west) is unlikely to enhance either.

Survey: International Gas Industry, Pages 9-12

Antony Goldman
Robert Corzine

INTERNATIONAL NEWS DIGEST

Funding rise for Lebanon

Mr James Wolfensohn, president of the World Bank, has announced a big increase in funding for Lebanon and declared his backing for Prime Minister Rafik al-Hariri's deficit financing of national reconstruction. On his first visit to Beirut, Mr Wolfensohn expressed confidence at the weekend in Mr Hariri's policy of accumulating debt to finance rapid reconstruction which some Lebanese politicians, bankers and economists have criticised.

Mr Wolfensohn said he would do the same as Mr Hariri if he were in his position. "We very much trust the government and believe in what they are doing," he declared, announcing the bank had quadrupled funding for Lebanon to $400m a year from $100m. The World Bank and its private-sector arm, the International Finance Corporation had allocated $420m to Lebanon in 1997.

The bank also raised emergency funding by $50m to $150m. The extra aid follows a pledge Mr Wolfensohn made during Israel's 17-day blitz of Lebanon in April 1996 to put in place a solid programme of financial assistance for that country.

The bank had already approved programmes for Lebanon totalling $600m. Another $1bn pledged at a donors' conference in Washington in December would be approved. These amounts were "very high" compared with the bank's contributions to other Middle Eastern countries. He expected spending of the money by Lebanon to speed up now, after a slow beginning. World Bank and IFC contributions would total $2.2bn over the next four years.
Reuter, Beirut

BIS sees interest changes

The rapid development of real time payment systems around the world could be opening the way for radical changes in the way interest rates are calculated in the interbank market, the Bank for International Settlements said yesterday. Instead of charging interest by the day, banks could charge each other by the hour or minute, which in turn could have implications for monetary policy, the BIS suggested in its annual report.

The situation bears analogies to developments in the telecommunications market, where technological advances have made it possible to bill phone calls by the second, instead of in much longer billing periods. Central banks today draw a sharp distinction between overnight credit, which expands the money supply and affects the wider economy, and intra-day liquidity, which is regarded more as lubrication for the payments system than real credit.

But large value payment systems around the world have been moving away from the traditional method of settling up net amounts owed at the end of the day to real time gross settlement, in which each payment is made as it falls due. "It is possible to imagine a futuristic scenario in which 24-hour trading and real-time settlement in various currencies could help blur the present neat distinction between "intra-day" and "overnight" central bank credit," the BIS said.
George Graham, London

Iraq in Syria border moves

Iraq has taken fresh measures to open its border with Syria, closed since the beginning of the 1980s, to ease trade between the two countries, al-Thawra, newspaper of the ruling Baath party said yesterday. "The Iraqi Customs Commission has taken necessary measures to open border points between Iraq and Syria," it added, quoting Mr Hameed Shuker Mahmoud, head of the commission.

All necessary requirements were completed to reopen the al-Qa'im border point opposite the Syrian one of Albukamal and the al-Waleed point opposite al-Tinif, Mr Mahmoud said.

The two points would handle Syrian goods that Iraq would purchase under its oil-for-food deal with the United Nations. An Iraqi trade ministry source said at the weekend that Iraq had signed several contracts with Syrian companies to supply Baghdad with wheat, pulses, soap and detergents under the pact.

No decision has yet been made on resumption of commercial and diplomatic ties, but hints in this direction were first made last month during a visit of leading Syrian businessmen to Baghdad. The visit was followed by positive statements from senior officials in the two countries. Iraqi newspapers reported yesterday that Syrian companies would soon organise, in co-operation with the Health Ministry, a medical exhibition in Baghdad.
Reuter, Damascus

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

UNITED STATES

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1986	105.6	100.1	6.9	98.4	95.8
1987	108.5	105.8	6.1	104.2	96.7
1988	113.0	110.5	5.4	104.9	100.2
1989	115.5	112.5	5.2	97.9	98.9
1990	116.2	112.3	5.5	82.7	94.7
1991	113.3	110.1	6.8	61.7	99.6
1992	117.0	113.6	7.4	61.8	104.5
1993	122.2	117.5	6.8	67.7	109.6
1994	129.6	123.4	6.0	79.0	111.3
1995	133.8	127.4	5.5	79.3	111.4
1996	138.9	130.9	5.4	77.1	117.6
2nd qtr.1996	4.2	2.9	5.4	76.3	115.6
3rd qtr.1996	3.6	3.0	5.2	76.3	116.6
4th qtr.1996	3.8	3.9	5.3	77.8	117.6
1st qtr.1997		4.7	5.3	80.1	119.5
May 1996	4.6	2.9	5.4	74.2	114.5
June	3.2	3.3	5.3	78.7	115.6
July	3.7	3.4	5.4	76.7	115.7
August	3.2	2.9	5.1	74.8	116.2
September	3.9	2.6	5.2	77.4	116.6
October	4.6	3.3	5.2	75.3	117.2
November	3.4	4.0	5.3	79.9	117.2
December	3.3	4.4	5.3	77.9	117.6
January 1997	5.3	4.8	5.3	79.3	118.4
February	4.5	4.0	5.3	81.2	119.3
March		5.1	5.2	79.9	119.5
April		4.1	4.9	79.7	

JAPAN

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1986	106.5	99.7	2.8	94.3	83.1
1987	113.8	103.1	2.8	108.3	90.9
1988	122.8	113.1	2.5	135.9	96.4
1989	132.8	119.7	2.2	147.0	98.2
1990	141.6	124.5	2.1	149.8	95.0
1991	144.5	126.8	2.1	144.2	91.8
1992	139.8	119.0	2.1	124.2	90.3
1993	131.7	113.6	2.5	105.8	95.5
1994	129.5	114.5	2.9	102.2	103.3
1995	128.5	118.5	3.1	106.5	107.8
1996	132.8	121.7	3.3	119.7	109.8
2nd qtr.1996	3.2	0.7	3.5	116.1	108.6
3rd qtr.1996	1.4	4.5	3.3	122.7	109.1
4th qtr.1996	3.1	4.4	3.3	128.3	109.8
1st qtr.1997		6.5	3.3	126.2	111.9
May 1996	2.3	2.4	3.5	119.3	108.3
June	4.4	−0.6	3.5	112.1	108.6
July	−1.7	6.0	3.4	122.9	108.9
August	2.1	2.7	3.3	121.1	108.8
September	3.6	4.8	3.3	123.8	109.1
October	4.3	5.8	3.3	128.7	109.2
November	4.0	4.2	3.3	128.2	109.6
December	0.9	3.4	3.3	127.6	109.8
January 1997	2.2	8.4	3.3	133.6	110.2
February	1.7	3.5	3.3	121.7	110.8
March		7.5	3.2	123.1	111.9
April		4.9			

GERMANY

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1986	102.2	102.2	6.4	136.9	86.3
1987	106.0	102.6	6.2	149.5	88.0
1988	109.1	106.3	6.2	165.1	92.6
1989	111.9	111.4	5.6	219.5	97.0
1990	119.7	117.2	4.8	261.9	98.8
1991	124.9	121.7	4.2	297.9	96.3
1992	122.8	120.0	7.7	287.9	89.4
1993	119.7	112.6	7.9	229.0	95.2
1994	117.8	117.5	8.4	241.2	104.7
1995	118.5	119.4	8.2	268.2	100.6
1996	116.7	119.0	9.0	273.8	104.9
2nd qtr.1996	−1.9	−1.1	8.9	281.6	101.5
3rd qtr.1996	−0.2	1.2	8.9	271.5	103.9
4th qtr.1996	−2.0	2.2	9.2	270.2	104.9
1st qtr.1997		4.0	10.1	274.1	108.4
May 1996	−4.7	−1.8	8.9	279.6	101.3
June	0.5	0.0	8.9	280.5	101.5
July	−0.3	0.4	8.9	272.9	102.4
August	0.3	2.1	8.9	269.6	103.2
September	−0.6	1.0	9.1	272.1	103.9
October	−2.1	2.0	9.1	271.2	104.8
November	0.4	1.4	9.3	272.1	104.7
December	−4.2	3.3	9.3	271.2	104.9
January 1997	−1.3	1.7	9.6	265.4	106.0
February	−0.9	6.6	9.6	274.4	107.5
March		3.8	11.2	282.0	108.4
April		1.3		272.8	

FRANCE

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1986	102.4	101.1	10.4	107.0	95.4
1987	104.5	103.1	10.5	117.2	95.2
1988	107.9	107.3	10.0	135.3	100.0
1989	109.5	111.3	9.4	160.6	98.7
1990	110.4	112.8	8.9	163.2	94.8
1991	110.2	111.4	9.4	128.2	96.1
1992	110.5	110.0	10.4	109.5	94.7
1993	110.7	105.8	11.7	90.0	98.4
1994	110.5	109.9	12.2	104.1	101.9
1995	110.8	112.0	11.6		87.4
1996	110.2	112.8	12.4		100.8
2nd qtr.1996	−0.8	0.3	12.4		99.6
3rd qtr.1996	−2.4	0.8	12.5		101.3
4th qtr.1996	1.2	2.4	12.7		100.8
1st qtr.1997	−1.6	1.3	12.8		101.6
May 1996	−2.4	0.4	12.4		99.1
June	−0.4	−0.4	12.4		99.6
July	−2.0	0.5	12.4		100.8
August	1.4	0.5	12.5		101.3
September	−6.4	1.3	12.6		101.3
October	4.4	2.5	12.6		101.4
November	0.4	2.5	12.7		101.1
December	−1.1	2.3	12.7		100.8
January 1997	−0.2	0.8	12.7		100.9
February	−3.2	2.0	12.8		101.3
March	−1.4	1.1	12.8		101.6
April					101.8

ITALY

	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator
1986	106.8	104.1	10.4	94.5
1987	112.1	106.8	10.9	96.2
1988	107.9	114.2	10.9	100.5
1989	116.8	118.7	10.9	98.7
1990	114.4	118.0	10.3	95.4
1991	110.9	116.9	9.8	97.6
1992	116.9	115.4	9.8	94.7
1993	114.1	113.0	10.2	101.5
1994	107.4	119.9	11.1	103.5
1995	102.1	127.3	12.1	102.0
1996		123.7	12.0	103.8
2nd qtr.1996		−1.2	12.0	100.6
3rd qtr.1996		−4.7	12.0	102.3
4th qtr.1996		−5.5	12.0	103.8
1st qtr.1997		−0.4		103.3
May 1996		−1.3	n.a.	100.3
June		1.7	n.a.	100.6
July		−3.2	n.a.	101.1
August		−7.9	n.a.	101.8
September		−2.7	n.a.	102.3
October		−2.8	n.a.	102.7
November		−2.2	n.a.	103.2
December		−11.0	n.a.	103.8
January 1997		−1.9	n.a.	105.1
February		1.1	n.a.	105.0
March		−0.6	n.a.	103.3
April			n.a.	

UNITED KINGDOM

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1986	105.3	102.5	11.2	116.1	94.2
1987	110.8	106.5	10.3	141.1	98.3
1988	117.8	111.6	8.6	144.0	98.0
1989	120.1	114.0	7.2	124.3	96.3
1990	121.1	113.7	6.9	97.7	94.2
1991	119.4	109.5	8.8	68.0	96.3
1992	120.4	109.4	10.1	69.6	98.2
1993	123.9	111.8	10.4	76.5	104.1
1994	128.5	117.4	9.5	91.8	105.8
1995	129.9	120.4	8.7	107.5	104.2
1996	133.8	121.9	8.2	131.8	106.7
2nd qtr.1996	2.6	1.2	8.3	121.3	106.2
3rd qtr.1996	3.4	0.8	[illegible]	139.5	106.4
4th qtr.1996	3.9	1.5	7.9	150.6	106.7
1st qtr.1997	4.6	1.1	7.4	155.9	107.1
May 1996	2.4	1.6	8.3	120.2	106.0
June	3.5	1.1	8.3	128.2	106.2
July	2.3	1.4	8.2	130.7	106.3
August	4.3	0.7	8.3	137.7	106.4
September	3.6	0.5	8.3	147.3	106.4
October	4.3	1.4	8.1	151.7	106.8
November	4.3	1.5	7.9	155.2	106.8
December	3.0	1.7	7.8	153.8	106.7
January 1997	4.9	2.0	7.6	152.0	106.6
February	4.4	1.1	7.4	156.9	106.7
March	4.4	0.2	7.2	159.0	107.1
April	4.7	2.2		159.2	107.5

All series seasonally adjusted. Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA. **Retail sales volume:** data from national government sources except Japan and Italy (value series deflated by OECD using CPI). Refers to total retail sales except France and Italy (major outlets only) and Japan (department stores only). **Industrial production:** data from national government sources. Includes mining, manufacturing, gas, electricity and water supply industries except Japan (mining and manufacturing only) and UK (also includes construction industries). **Unemployment rate:** OECD standardised rate which adjusts as far as possible for the different definitions of unemployment used in official sources. **Vacancy rate indicator:** relevant vacancy measure divided by total civilian employment, expressed in index form. Derived from OECD series: US – help-wanted advertising, Japan – new vacancies, Germany and France – all jobs vacant, Italy – no data available, UK – unfilled vacancies. **Composite leading indicator:** OECD data. Each is a combination of series, cyclical fluctuations in which usually precede cyclical fluctuations in general economic activity.

Republicans seek capital gains tax cut

By Bruce Clark in Washington

Republicans in the US House of Representatives yesterday proposed a drop in capital gains tax, and credits for children and college students, in what they called the biggest tax-cutting package since 1981.

Mr Bill Archer, chairman of the Ways and Means committee, presented a bill that would put into practice the $85bn tax cut which has been agreed in principle by the White House and Republican leaders under a five-year plan to eliminate the budget deficit.

He described yesterday's package as a "solid first step toward a smaller government for bureaucrats in Washington and a larger pay cheque for workers in America".

The bill would cut the rate of capital gains tax, currently 28 per cent, to 10 per cent for couples earning less than $41,200 a year and to 20 per cent for those with higher incomes. The capital gains rate would also be indexed for inflation. For companies, a cut in capital gains tax is envisaged from 35 per cent to 30 per cent for assets held for more than five years.

Democrats on Mr Archer's committee, which is responsible for tax-writing, complained Republicans had "siphoned off many of our gains from our current fertile economic climate and delivered them directly to the rich".

In one of its most controversial proposals, the package suggests eliminating a $600m-per-year tax break designed to encourage the use of ethanol, an ecologically-friendly motor fuel based on corn.

The tax break has always enjoyed strong support from the farm lobby, including legislators from the Midwest, but oil companies have said it puts fossil fuels at an unfair disadvantage.

Mr Archer said the subsidy was not effective in reducing pollutants and it "destroyed the value" of corn which should be used to feed people and livestock.

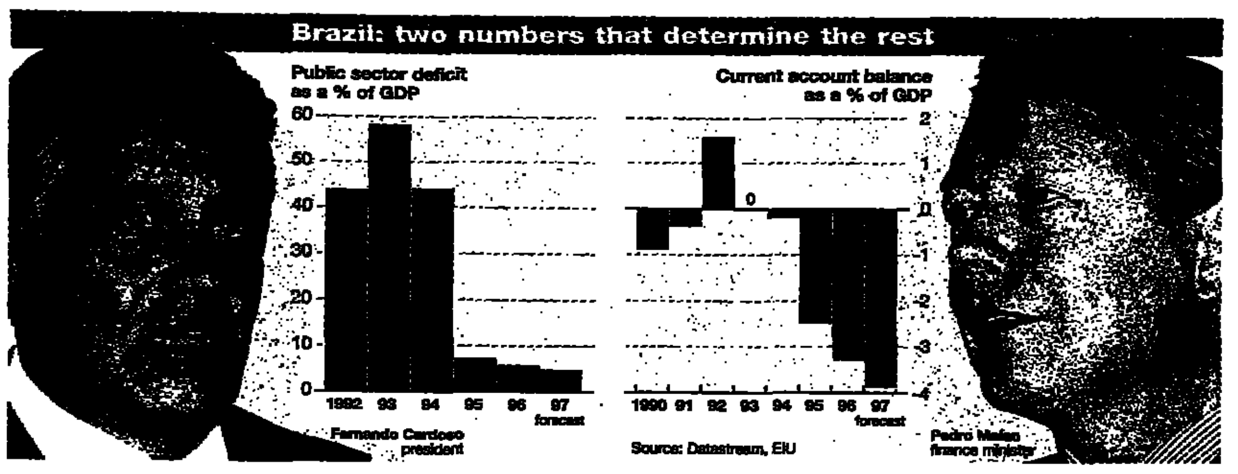
In its tax relief for families with children and college students, the package matched and in some cases outbid suggestions already made by President Bill Clinton.

Mr Archer said his version of a $500 per year family tax credit – already agreed in principle with the White House – would apply to 41m children, or 11m more than Mr Clinton had suggested.

Yesterday's proposal also raised from $600,000 to $1m the ceiling above which inheritance taxes were levied. The committee hopes to complete work on the bill, and send it to the full House, by Friday.

Twin peaks darken Cardoso's future

Curbing deficits is crucial to the future of Brazil's president, writes Stephen Fidler



The twin peaks of the Brazilian economy – its budget and balance of payments deficits – are looming larger than ever on the horizon of President Fernando Henrique Cardoso's government.

The long-term success of the Real Plan, the sophisticated anti-inflation programme introduced three years ago when Mr Cardoso was finance minister, is widely seen in Brazil as depending on these peaks being surmounted.

The deficits are already holding back growth. If they are not addressed, the plan's success in bringing down four-digit annual inflation rates to single digits will sooner or later be placed in jeopardy. And the political future of Mr Cardoso, likely to stand for re-election next October, will be on the line.

Even Brazil's normally upbeat finance minister, Mr Pedro Malan, agrees things cannot continue as they are. "Fiscal deficits of 5 per cent of gross domestic product are unsustainable over time," he says, "but we are working towards bringing it down."

The overall public sector deficit has indeed been coming down from around 7 per cent of gross domestic product in 1995, but only to a forecast 5 per cent in 1997. And much of the fall has been as a result of lower interest rates which have reduced payments on government debt.

Unless long-awaited amendments are made to the constitution to cut spending on salaries and earmarked transfers, Brazil's government expenditure is almost doomed to exceed spending.

At the same time the current account gap in the balance of payments has climbed from 2.5 per cent of GDP in 1995, to 3.3 per cent last year and 3.9 per cent in the first four months of 1997.

This is currently being financed relatively easily – including through long-term bond issues. Foreign exchange reserves are close to $60bn, while Brazil's giant privatisation programme can also generate significant sums for the government.

Mr Edmar Bacha of Banco BBA-Creditanstalt and Mr John Welch of Paribas in New York, say privatisation will "give the government a large margin to finance current account deficits between 1997 and 1999. Despite current account deficits of around 4 per cent of GDP, the central bank should accumulate more than $4bn in foreign exchange reserves through 1999."

Nonetheless, the size of the current account deficit is already constraining growth at a lower level than the government's planners thought likely. "At the start of the Real Plan, we thought that 4 per cent growth would be sustainable on the balance of payments. We may get to the point where we need lower growth for a year or two," said Mr Francisco Lopes, director of monetary policy at the central bank.

Growth this year is widely forecast to undershoot 4 per cent. The conundrum now faced in Brazil is a familiar one to policy-makers elsewhere in Latin America. The trade liberalisation that has reduced tariffs sharply since the early 1990s has combined with a strong exchange rate – an integral part of the initial stages of the anti-inflation programme – to increase demand for imports. Meanwhile, exports have grown only modestly, held back by low (though probably improving) productivity, and the exchange rate.

"This is a structural process and nobody can be sure when it will stop and how far it will go. But it's stronger than most people expected," said Mr Lopes.

According to Mr Affonso Celso Pastore, a former central bank president, the government is boxed in. Its lack of success in pushing through congress the constitutional changes that would correct its fiscal imbalances leaves it with two macro-economic policy instruments: monetary and exchange rate policy.

However, the exchange rate is being used to anchor the price level. Depreciating the real to reduce the current account deficit risks re-igniting inflation. Meanwhile, though the government is not averse to using controls where it can, its membership of the World Trade Organisation and of the Mercosur trade grouping constrains it from reducing imports through protectionist devices.

The only policy instrument left is monetary policy: interest rates are thus bearing the burden of holding back growth and keeping the current account deficit in check. "We are not growing because we are not investing and we are not investing because our rates of interest are very high," said Mr Celso Pastore.

Thus the government will confront the issue that is sooner or later faced by all stabilisation programmes based on an exchange rate anchor, with the debatable exception of a currency board: how to move to a more flexible exchange rate system.

This has been achieved successfully in the past: for example, in Israel in the 1980s. However, Israel's fiscal position was much stronger than Brazil's is now. And, as Mexico's 1994-95 crisis showed, sudden exchange rate movements can be very damaging to the private sector and the financial system – even though Brazil's banks appear in better shape than were Mexico's.

All this means, says Mr Celso Pastore, that an exchange rate depreciation "can't be done badly and shouldn't be done abruptly".

Mr Malan argues that, unlike in Mexico in 1994, the exchange rate "system has built-in flexibility". The permitted trading band for the real against the dollar has been shifted downwards three or four times since the introduction of the plan.

"We realise there are risks involved, but we have been dealing with risks since 1993," he says.

Brazil finance survey, separate section

NY stops rot in garbage collection

By Leyla Boulton
Environment Correspondent

Since its liberation from the Mafia, a New York office block owned by the Alabama Retirement System spends $120,000 instead of $1.2m a year on garbage collection.

This is one of the most spectacular results of New York City authorities' battle to free the waste industry from the grip of organised crime bosses who have controlled it for the past 40 years.

The recent successes are ascribed to Mayor Rudolph Giuliani, extensive use of wire-taps and undercover agents, and the arrival of a few large companies keen to inject competition into the Big Apple's rotten garbage market.

City officials and waste industry executives used a New York conference last week to encourage more city businesses to exercise their "right to choose" their waste company.

Their main challenge has been to break the system of "property rights" traditionally enjoyed by some 300 smaller waste companies over consumers, and enforced by Mafia-controlled trade associations.

When a contractor called Chambers began hauling waste paper from the Bank of New York at Number One Wall Street, it was presented with a $790,000 bill for "compensation" from the previous "owner" of that particular "stop".

But it was only because Chambers took the rare step of complaining to the police that an undercover agent joined the company as a senior executive. For three years he paid compensation money to, and wire-tapped, the claimants.

At about the same time, BFI, a national waste disposal company, also agreed to enter the New York market, and take on an undercover agent.

It then put in a successful bid to service the building owned by the Alabama Retirement System, even as the Mafia-run cartel tried to bribe the building's manager – another undercover agent – to stop it.

"The arrival of BFI struck fear in the heart of the cartel", said Mr Daniel Castleman, chief of investigations at the New York Country District Attorney's Office. "It was one thing to intimidate a smaller company, quite another to take on a $4bn-plus corporation."

Waste industry wins a victory in its war with organised crime

BFI's use as a battering ram by the authorities paved the way for other large operators, such as Waste Management, to enter the market. In little more than a year Waste Management said it had 10 per cent of New York's $1bn-plus market for commercial waste.

But city regulators are keen to drive prices down further in a city which still has the highest waste disposal costs in the country. They say that while large customers are taking advantage of the choice and lower prices afforded by competition, smaller companies in outlying boroughs have yet to do so.

The New York City Trade Waste Commission, a regulatory body created a year ago to promote competition and "eliminate bad actors" from the market, hopes that further reductions in the so-called "maximum" rubbish collection rates will make the industry "less attractive" for the Mafia.

As Mr Edward Ferguson, the Commission chairman, put it: "One thing matters to organised crime and one thing only: the money".

Brussels to back modified maize

By Sander Thoenes in Brussels

The European Commission is set to reaffirm approval for imports of genetically modified maize, overriding import bans by member states and objections by the European Parliament, a spokesman said yesterday.

The announcement coincided with the Commission's first approval for the marketing of genetically modified oilseed rape in the EU, which will incorporate appropriate labelling.

A spokesman for Mrs Ritt Bjerregaard, environment commissioner, said the Commission would overrule Austria, Luxembourg and other states which have banned or restricted imports and cultivation of genetically modified maize.

But Mrs Gabrielle Zgubic, an official at the Austrian Ministry for Women and Consumer Affairs, said her government would uphold the ban and appeal to the European Court of Justice if the Commission insisted on permitting imports of genetically modified produce. "We will not give up the ban," she said.

Consumer groups fear that crops genetically modified to resist pests could also increase human resistance to antibiotics. Environmental groups and consumer lobbyists have called for separating and labelling genetically modified foods. This, however, would require separation all the way back to animal feed and seeds, such as maize and soybeans.

The US does not require any labelling or separation and has objected to European efforts to introduce requirements because it would hinder its exports to Europe for anything from seeds to chocolate bars.

In April, the Commission decided to make labelling mandatory on new genetically modified crops from July 31.

Yesterday it announced it had approved introduction on the market of genetically modified oilseed rape by Plant Genetic Systems (PGS), the Belgian biotechnology company, following the company's decision to label its products as genetically modified.

Although the requirement is not retroactive, the Commission spokesman said approval for PGS and nine other applications had been stalled by the Commission for up to two years.

Most applicants have introduced labelling in recent weeks. "It's voluntary but I'm sure it would help," he said. "Nothing will be approved without labelling."

A wholly revised set of regulations and guidelines on genetically modified crops, seeds, animal feed and foodstuffs, including labelling requirements, was being drawn up, he said.

The Novel Food Regulation, which came into force last month, prescribes labelling of consumer products containing genetically modified crops but the regulation has yet to be implemented by member states. There is also a draft proposal requiring separation of modified crops.

Labelling would not satisfy Austria's concerns. Mrs Zgubic said: "This is a health issue, not a consumer information issue."

Three Gorges decision delayed

By Tony Walker in Beijing

China has begun final evaluation of bids for the supply of turbines and generators for the $30bn Three Gorges hydro-power dam on the Yangtze river, but it will not meet a June 30 deadline for selection of the successful bidders.

Mr Zhang Denan, the vice minister of the Three Gorges Project Construction Committee, explained that "because of the complexity of the project a decision would be postponed, but I believe it will not be postponed for too long".

Chinese evaluation teams have completed a review of bids lodged by six international consortia, awarding points for each bid according to technical criteria, financing and technology transfer.

The project construction committee is expected to advise the cabinet on the successful bidders by next month, with contract talks to be completed by August.

The Swedish-Swiss company ABB is involved with Kvaerner of Norway for the project's first stage, which involves the supply of 14,700MW units.

Mr Paul Chan, senior vice president of ABB China, described discussions as extremely "rigorous" and said the Chinese were taking considerable care with all aspects of negotiations.

Other consortia include GEC-Alsthom and Neyrpic of France; Mitsubishi Heavy Industries at the head of a Japanese group; Impsa of Argentina and Turboatom of Ukraine; Voith and Siemens of Germany with General Electric of Canada (a subsidiary of GE of the US); and Energomachexport of Russia and Sulzer of Switzerland.

China this month called bids for the Three Gorges civil works, but restricted bidders to domestic companies. Six construction companies have lodged bids for the Yn5bn ($723m) work on the dam wall, spillway and structures for turbines and generators.

China is expected to divide contracts between several consortia for the turbines and generator supply. This is adding to complications in assessing competing bids for the world's biggest power project.

Representatives of foreign power companies in Beijing said that China had avoided a shortlist, but consortia involving Ukrainian and Russian companies faced difficulties because of Chinese concerns about financing.

China plans to complete the first stage of the Three Gorges project by 2003 and the final stage by 2009, with the installation of a total of 26 700MW power units, equivalent to 18,200MW.

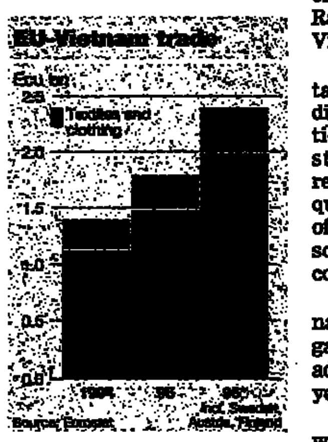
At capacity, the dam will produce the equivalent of a tenth of China's 1993 electricity output.

Vietnam, EU in fight over textile quotas

By Jeremy Grant in Hanoi

Vietnam and the European Union are set for a tussle over textile quotas, with Hanoi determined to win greater market access for its booming garment industry and Brussels under pressure from textile federations to stem a rising tide of Vietnamese imports.

Hanoi wants a dramatic rise in quotas set under an existing bilateral pact, which the two sides are set to renegotiate around September. In some categories, it is seeking a five-fold increase in quotas. Textiles account for about 70 per cent of EU-Vietnam trade.



That worries some EU member states, whose textile federations say any rise would further threaten jobs.

Vietnam's textile exports to the EU have grown rapidly in the past three years, and the communist-run country is now the third largest exporter after China and Indonesia.

In addition, Vietnam wants the EU to give it the same level of quotas enjoyed by other countries in the Association of South East Asian Nations (Asean), of which Hanoi is a member. "We note our quota for textiles is low in comparison with other Asean countries," said Mr Nguyen Dinh Hoan, a senior official in the cabinet office.

However, EU officials are taking a firm line, saying that Vietnam's position fails to take into account its late entry into the market.

"I think the EU will be as generous as we can be but we can't contemplate treating Vietnam in the same way as other Asean countries because the starting points are completely different," said Mr Riccardo Ravenna, EU ambassador to Vietnam.

The EU is also likely to take issue with Vietnam's discriminatory quota allocation system, under which state-owned enterprises receive preferential access to quotas, often at the expense of foreign joint ventures – some involving European companies.

Mr Ravenna urged Vietnam instead to diversify its garment production to take advantage of categories not yet under quota.

The EU is also seeking wider market access for its fabrics.

Mr Hoan also struck a conciliatory note, suggesting that companies from southern Europe – those most affected by Vietnamese exports – could set up manufacturing joint ventures in Vietnam. "We have to avoid any activity, any wording, that would not benefit our relationship" with Brussels.

The EU would not feel under such pressure if Vietnam has Most Favoured Nation (MFN) trading status from the US, which analysts say could absorb the bulk of its textile exports. But that is unlikely for at least another year.

Brussels is also concerned about a bilateral trade surplus of about $300m in Vietnam's favour and wants increased access for its intermediate goods.

Sony, Philips push on with new audio disc

By Alice Rawsthorn

Sony, the Japanese consumer electronics group, is developing the technology for an advanced version of an audio compact disc in conjunction with Philips, its Dutch partner.

The two companies, which jointly launched the original audio-CD in the early 1980s, plan to harness recent advances in high resolution digital encoding to produce discs capable of providing considerably higher sound quality than the existing format.

Initial sales of the new discs are expected to be limited to the professional market of musicians and record producers. However, Sony said it is also expected to appeal to hi-fi buffs and, possibly, eventually to any members of the general public interested in hearing a souped-up version of recordings such as *The Fat Of The Land*, a forthcoming album by The Prodigy (*pictured above*).

The news of Sony and Philips' plans for the advanced audio-CD comes at a time when they, and rival consumer electronics companies, are also developing a new generation of recordable digital video disc (DVD) technology.

Sony and Philips announced last week that they had completed the development of the basic technology to produce a new high-capacity rewriteable optical disc which, they hope, will eventually replace the video cassette.

The new disc, which will be produced by a new form of laser technology, will store 12 gigabytes of information on either side, against 2.6 gigabytes on each side of existing recordable DVDs.

Sony said that the discs, which will be playable on existing digital video disc hardware, are scheduled to go on sale in the year 2000.

Matsushita, the Japanese electronics group which belonged to the opposing faction to Sony and Philips in the race to create the original DVD standard, also claims to have developed technology to produce its own advanced recordable digital disc. The Matsushita disc will have the capacity to store 15 gigabytes of data on either side. The company has not yet decided when its version of the disc will go into commercial production.

US Christians split on MFN for China

By Nancy Dunne in Washington

Christian missionary groups in the US are at odds over Most Favoured Nation trade status for China, with some factions arguing that denying MFN to Beijing is "not in the interest of the church".

The China Service Co-ordinating Office, serving more than 100 Christian organisations working in China, has warned that "well-intentioned" political activism to withdraw from China the same trade benefits enjoyed by most other US trading partners could "hamper the efforts of Christians from outside China who have spent years seeking to establish an effective witness among the Chinese."

The annual fight over China's MFN has been joined for the first time this year by the Family Research Council, a US Christian conservative lobby group. The council has publicised China's forced abortions, religious persecution and "slave" labour in Chinese prisons.

"Public shaming of the Chinese government and economic sanctions backed by American Christians will only serve to strengthen the official Chinese perception that Christians are a threat to China's political and social stability, and to heighten mistrust of Christians by the Chinese public," the China Service Co-ordinating Office said.

This could result in greater persecution of Christians inside China and less opportunity for "witness and service". After a critical Human Rights Watch report last year, Christians who had for years worked quietly in Chinese orphanages suddenly found their doors closed to foreigners.

The rightwing challenge to MFN, joined with opposition of many Democratic and Republican populists, is expected to make it harder for the US administration to win renewal.

"There is division as great within groups on the issue of China's MFN as between those groups," Mr Cal Cohen, a leading business lobbyist, said.

The anti-MFN coalition has won some important converts, including Congressman John Kasich, chairman of the House budget committee, and Congressman William Paxton, a New York Republican.

Some opposition is more political than spiritual, as Republicans seek to build support for their own ambitions among rightwing Christian activists. Mr Paxton has been mentioned as a possible successor to Mr Newt Gingrich, Speaker of the House.

WORLD TRADE NEWS DIGEST

Mobile phone standards move

Ericsson and Nokia, Europe's two leading mobile phone manufacturers, yesterday joined forces to help efforts to standardise the next generation of cellular technology in Asia and Europe. They said they would back new wideband CDMA, or code division multiple access, technology for third generation cellular systems.

This would include support for efforts by NTT DoCoMo, Japan's leading cellular operator, to have wideband CDMA adopted as the standard in Japan. "This gives us a chance to have the same standard in Japan and Europe, which has never happened before," said Ericsson.

Nokia and Ericsson believe wideband CDMA has the versatility and capacity to meet the multimedia data communications challenges of the next century. Users will be able to enjoy simultaneously several different services over a single terminal. For example, they could conduct a video conference while transferring large data files at the same time. Crucially, wideband CDMA will allow existing GSM users the possibility of a smooth migration to the new system.

This is important because there will be an estimated 300m subscribers to GSM-based networks by 2001 when the first commercial application of wideband CDMA is expected. NTT DoCoMo will start testing the new system next year. *Christopher Brown-Humes, Stockholm*

Mahogany 'endangered'

Greenpeace, the leading environmental pressure group, yesterday said there was a good chance that big leaf mahogany, found mostly on the American continent, would be listed as an endangered species at a world conference in Zimbabwe. Ms Isabel McCrea, a spokeswoman for the Amsterdam-based group, said a proposal by Bolivia and the US to a 10-day Convention on International Trade in Endangered Species (Cites) would help control trade in big leaf mahogany. Bolivia is the world's largest mahogany exporter and the US the largest importer.

The proposal is one of about 80, including one controversial proposal calling for a partial lifting of the ban on ivory trading, to be submitted to the 138-member convention for consideration. *Reuter, Harare*

Queensland electric car deal

A contract worth more than Ecu130m ($147m) to build 90 electric railcars in Queensland, Australia has been awarded to a joint venture between Adtranz and Evans Deakin, in what they claim is the biggest passenger rail vehicle contract in Australia for almost 10 years.

The vehicles will be designed by Adtranz, a joint venture between Daimler-Benz, the German industrial group, and the Swiss-Swedish group ABB. They will be built in Maryborough, Queensland, at the factories of Walkers-Adtranz, the Evans Deakin-Adtranz joint venture.

The vehicles will use electric propulsion and control equipment from Adtranz facilities in Sweden. The first cars are due to be produced and delivered by April 1999. The contract is expected to be completed by April 2001.

The deal follows the award to the same joint venture of an Ecu20m contract for 10 electric railcars from Westrail in Perth. Adtranz said its share of the contract was worth more than Ecu80m. *Graham Bowley, Frankfurt*

US moves on Manila exports

The US has lifted caps on Philippine exports of radio paging receivers and heating and cooling regulators, in an easing of its generalised system of preference (GSP) programme. Mr Cesar Bautista, Philippine department of trade and industry secretary, said removal of the restrictions would boost local companies' exports by 50 per cent. Exports of both products from the Philippines amounted to $82m in 1996.

Under the US GSP programme, preferential tariffs are extended to exports from developing economies. Products can enjoy preferential tariffs as long as they are excluded from GSP quotas or competitive need limits. The latest move from the US brings to 14 the number of Philippine products exempted. *Justin Marozzi, Manila*

Private cash for Taiwan port

Taiwan aims to enlist the private sector to build and operate a planned new T$47.3bn (US$1.69bn) port near the congested northern harbour of Keelung. The transport ministry will invite private companies to bid on contracts for seven docks and other facilities for the port. Nearly half the project's total funding – T$21.8bn – is to come from the private sector.

"The new port project will increase Keelung's overall capacity," a ministry official said. The ministry did not provide further details of the project or its financing.

The port development project might be based on the build-operate-transfer model – enabling private companies to build and operate the port for decades before transferring operating rights to the government. Keelung port, which is a natural harbour, is the main container and grain facility in northern part of the island. *Laura Tyson, Taipei*

■ Motorola Multimedia Group, a unit of Motorola of the US, yesterday signed a contract to install up to 2,000 cable telephony lines in India for Indian telecommunications company Essar Commvision.

Motorola said that it would also install an infrastructure for future cable television and Internet access services under the project.

Motorola Multimedia Group develops, manufactures and markets systems for the convergence of voice, data and video communications services over broadband multimedia platforms. *AP-DJ, Arlington Heights*

Power plants offer Bangladesh new hope

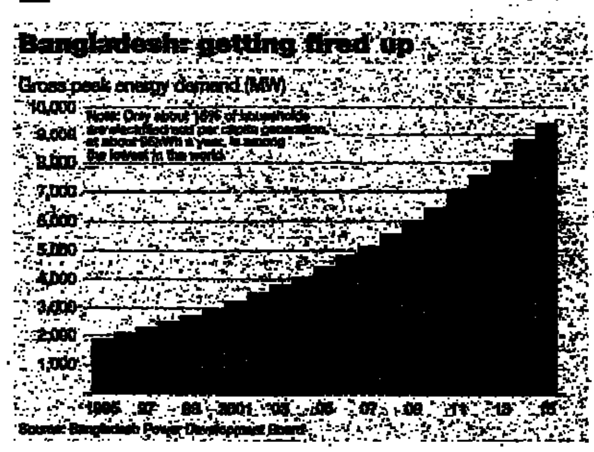
Bangladesh has signed $400m worth of contracts to set up three barge-mounted power plants.

The investment is part of larger multi-billion-dollar investment plans which international power, oil and gas companies are proposing for the country, after recent discoveries of new gas fields.

But the investment proposals may bring fresh political difficulties for the government as any large-scale power and gas development plan will inevitably involve exports of gas to India. This is a politically sensitive subject in Bangladesh where the opposition parties frequently accuse the government of selling out to New Delhi.

Despite these problems, Bangladesh's fortunes are changing in a way few expected only several months ago.

The government, which has been under pressure to explain the widening gap between the demand for and supply of electricity and the resulting frequent power cuts, is now able to boast of having attracted foreign investors to generate an extra 300MW of electricity in less than 10 months' time, when the three plants are expected to come on stream.



The plants will be set up on a build, own and operate basis. Negotiations are continuing with other companies for a fourth plant of 100MW capacity.

"These negotiations are expected to be completed in the next couple of weeks. After that, we plan immediately to start negotiating with the companies shortlisted to set up fixed power plants," Mr Nuruddin Khan, the energy minister, said.

Japan's Marubeni, the Swiss-Swedish group Asea Brown Boveri and the UK's Midland Power are among companies shortlisted to establish three fixed power plants with a combined capacity of about 800MW over the next few years.

The US oil company Unocal is reported to have proposed a fourth fixed 300MW power plant near Shahabazpour gas field in the south of the country, to which it has the initial right of exploration.

At a total cost of $2bn, the new power plants will, combined capacity of about 1,600MW, will nearly double the country's ability to generate electricity to about 4,000MW over the next five years.

All the power plants will eventually be fuelled by gas from the recently discovered fields, delivered through new pipelines which are yet to be planned and laid.

The international companies and financial institutions involved believe Bangladesh will have enough gas to pay for the electricity and the pipelines.

Their optimism follows the recent discoveries and the enthusiastic response by international oil and gas companies to the government's March invitation to bid for gas exploration rights in central and western parts of the country.

The government has signed gas production sharing agreements with Cairn Energy of the UK and Occidental, the US group, under which it will receive a total 300m cuft of gas per day from the fields in the Bay of Bengal and the northern Sylhet region.

But the agreements make it clear these companies will have to be paid in hard currency for almost 80 per cent of the gas, to cover investments and profits. "The government has to export part of its gas," an executive of a US oil company said.

"The government will have no choice but to export gas to neighbouring India, at least for the first few years until local industries generate enough hard currency," said an expert of another company, pointing to the near impossibility at the moment of laying pipelines across Burma, Bangladesh's other neighbour, to Thailand.

Enron International, the US company, has already drawn up the outline of a proposal for an integrated gas pipeline network.

Such a network of pipelines could eventually connect Bangladesh to India, as well as the gas fields in the north-east Indian state of Tripura to West Bengal through Bangladesh.

Kasra Naji

NEWS: ASIA-PACIFIC

Telecom groups look to wider ventures

By James Kynge in Singapore

Telecommunications groups are increasingly likely to seek tie-ups with computer manufacturers, software firms and other non-telecoms companies, according to Mr Frank Blount, chief executive officer of Telstra, the Australian telecoms giant.

Mr Blount's message, which he delivered as the largest international telecoms fair ever held in Asia started yesterday, appeared to be partially reinforced by comments from Mr Bill Gates, chairman of Microsoft. Mr Gates said by video link from the US that Microsoft would look for partners to develop new telecommunications technology so that one day any computer could be plugged in to any phone system.

"Microsoft is not in the communications business. But the future of our business depends on new communications capacities," Mr Gates said.

The Asia-Pacific region accounted for 54.3 per cent of the $160bn raised from telecommunications privatisation throughout the world in the period 1984-96, said Mr Pekka Tarjanne, secretary-general of the International Telecommunication Union, which organises the world's communication links.

Deregulation in the region has proceeded apace, with the 80 new operators created since 1990. In Malaysia, the ratio of cellular phones to population has climbed by 601 per cent in the past three years. Thailand has more mobile telephones than in all of eastern Europe and the former Soviet Union. In Cambodia, cellular subscribers outnumber those for fixed line services.

Telstra, the Asia-Pacific's second largest operator by revenue, is pursuing a joint venture in Australia and south-east Asia with International Business Machines, the US computer group, that would offer a complete communications package to customers.

"The customer could get their desktop and all the communications leading to that desktop from one company," Mr Blount said in an interview. "I suggest that you are going to see a lot more" of this type of tie-up, he added.

But past mergers and acquisitions between telecoms companies and computer companies have resulted in a clash of cultures and have been ultimately unrewarding, he said. The best way to seek convergence was by setting up separate joint ventures which would be focused on selling a complete package to customers.

Mr Blount said Telstra remained in discussions with several telecoms operators on the possibility of an international alliance. Such activities include talks with Concert, the entity resulting from a merger of British Telecom and MCI, a US carrier.

For Telstra the most important point was to join the right international alliance partly because "you have got to remember that as soon as you have declared yourself with one, you have just made the others enemies".

Japan shoulders arms for Asian stability

William Dawkins reports on progress towards a likely new US-Japan defence arrangement

Japan may soon wake up to a more active role in Asian security, after having been a sleeping partner of the US for the past half century.

The wake-up call came over the weekend in the form of an interim joint report with the US, proposing that Japan give substantially greater support than now to US forces in the event of an Asian conflict.

The report, the first full review of US-Japan defence arrangements in nearly 20 years, is seen in Japan as an implicit challenge to its pacifist constitution, which bans so-called collective defence, the use of force against an attack on a partner. It will "inevitably lead to acting in unison with US use of force," says Mr Atsushi Furukawa, professor of constitutional law at Senshu University.

The review was initiated at a US-Japan summit last year and the Japanese cabinet will consider its suggestions in the autumn. It has predictably awakened anxieties in China, acutely sensitive to being ganged-up on, and has stirred up rumblings among the anti-US military camp in Japan.

However, the principle of Japan making a bigger contribution to Asian security is gaining increased domestic acceptance, as shown by the moderate tone with which the media greeted the report yesterday. The Yomiuri Shimbun, the largest circulation daily newspaper, said the government should re-interpret – though not change – the constitution to permit collective defence.

The next step will be a parliamentary debate before the final joint report on the review of the US-Japan 1978 defence co-operation guidelines comes out in the autumn. If all goes well, this will lead to legislation on a beefed-up defence pact in the following few months. Constitutional changes are not envisaged.

Why should Japan consider taking a greater security role now? Its post-war economic success was due in part to a comfortable arrangement whereby the US guaranteed Japan's security, allowing it to concentrate on industrial development. Japan gave up the use of force to settle international conflicts, at US insistence, at the end of the second world war and to this day disingenuously calls its own military the "self-defence forces".

The balance shifted, however, with the end of the cold war, when Japan became less vital to the US as a bulwark against communism in Asia, just as its success as an economic competitor was starting to create real alarm in US industry.

With the US defence budget under strain, some in Washington feel that it is high time for Japan to make a greater contribution to its own defence.

That sentiment is matched by the mainstream of the Japan's ruling Liberal Democratic party (LDP), and at least half of the main opposition group, the New Frontier party (NFP), who feel that the country is ready to assume slightly more clout on the world stage, commensurate with its economic weight.

The proposals in the report, adopted by senior defence officials at a meeting in Hawaii, would take Japan a small but significant step in that direction. If agreed by parliament, they would, crucially, oblige Japan for the first time to provide the US military with support outside Japanese territory.

Support in areas around Japan would include, among 40 concrete examples listed in the study, minesweeping, supply of fuel and lubricants, aircraft surveillance and information sharing. Within Japan, the interim report calls for the repair and maintenance of US equipment and transport of all kinds of US supplies, including weapons and ammunition.

By Japanese standards, the potential consequences are stark. In the event of a US clash with North Korea, for example, a Japanese fighter jet engine repair plant in Nagoya would become a clear military target.

In such a clash, a Japanese surveillance aircraft would, said a defence official yesterday, be unable to refuse a US request for data on enemy aircraft, even when flying outside Japanese territory.

Are ordinary Japanese and their sensitive Asian neighbours ready to see it take such risks and responsibilities? Probably, yes. In the immediate aftermath of the Hawaii talks, the first objections come only from the most predictable quarters.

Mr Xiong Guangkai, China's deputy chief of staff, described the proposed new guidelines as a return to "cold war thinking" at a meeting in Beijing last week with LDP politicians, who were attempting to soothe Chinese sensitivities.

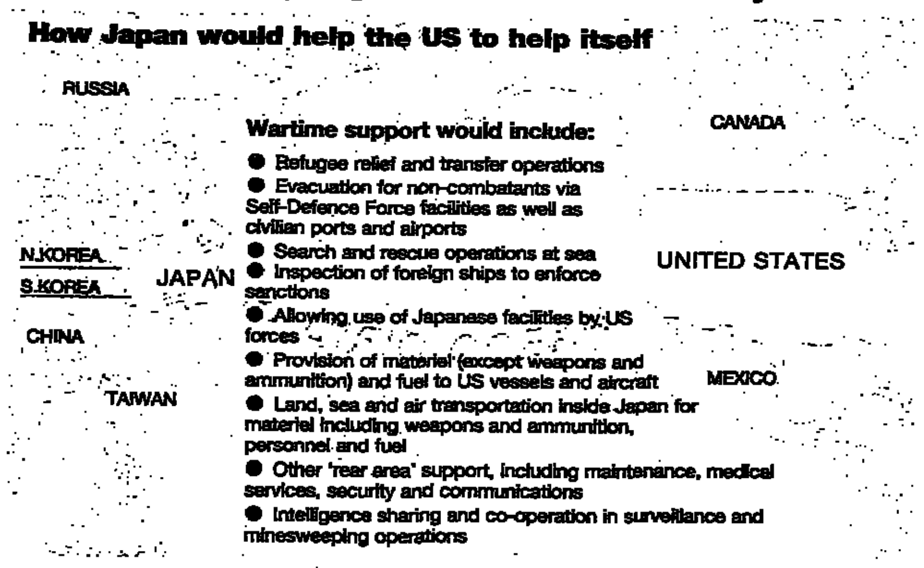
But South Korean officials, whose memories of Japan's wartime behaviour are as painful as any, were yesterday quoted as saying that they did not object, as long as the Japanese military operated within constitutional rules.

In Japan, those living near US bases – notably on the island of Okinawa – are understandably irked. Also predictably annoyed is the leftwing Social Democratic party, a traditional opponent of the US defence pact.

But on balance, the LDP, its ally the New Harbinger party and most of the NFP represent a sufficient majority for the government to have its way. Mr Ryutaro Hashimoto, the prime minister, yesterday showed suitable respect for consensus and stressed that there was no need to rush into an agreement.

There will be no rush, but at the same time, the weekend's agreement in Hawaii is the starting signal for an overdue and very important debate on Japan's role in maintaining stability in Asia.

How Japan would help the US to help itself



ASIA-PACIFIC NEWS DIGEST

Manila plans industry boost

The Philippine government is launching a six-point plan to reverse the slowdown of the manufacturing sector after a disappointing industrial performance in the first quarter. The plan, which President Fidel Ramos has ordered to be implemented immediately, calls for the removal of cross-subsidies in power rates, a new tariff restructuring programme and liberalisation of the domestic shipping industry. It also includes a moratorium on the setting up of new duty-free outlets and a slimmer government incentive package for investors.

The move was prompted by worse than expected manufacturing figures, which showed growth of 2.3 per cent compared with a 4.9 per cent rise a year ago. It is an indication that in spite of bullish statements from economic policy makers, Manila's confidence in recent economic growth and prospects for the future has been undermined. It also supports critics such as Mr Benjamin Diokno, an economist in Manila known as the "prophet of doom", who has long argued that Philippine growth is based on a superficial boom in the property and construction sectors. *Justin Marozzi, Manila*

Singapore industrial growth

Singapore's industrial output rose in April after falling in February and March as its economy continued a gradual upturn. Manufacturing output rose 1.1 per cent in April from a year earlier, after falling 6.9 per cent in March and 3.5 per cent in February. The main impetus came from a 3.1 per cent rise in electronics, which account for 45 per cent of Singapore's manufacturing value-added. The best performers were disk drives, computer peripherals and telecommunications equipment. The cumulative industrial output for the year, however, is 3.9 per cent below the output in the same period in 1996. Electronics output is 7.0 per cent lower. *James Kynge, Singapore*

Hanoi groups fail profit test

Vietnam said yesterday that about 50 per cent of state-owned companies in Hanoi had failed to make a profit in the first quarter of this year. The official La Dong newspaper said they were suffering at the expense of leaner private competitors, which paid better wages and were more productive. Figures were not available for state enterprises in the booming south, where many are in joint ventures with foreign investors and may thus appear to be in better shape. Although many state groups have privileged access to land and other resources, many foreign and local economists say they are loss-makers that will act as a serious drag on the economy if not scrapped or privatised soon. *Jeremy Grant, Hanoi*

Hard line on N Korea food aid

The US and South Korea yesterday ruled out large-scale food aid to North Korea until it joined peace talks, in spite of United Nations warnings of imminent famine, South Korea said yesterday. "We reaffirmed our position that any major assistance could be discussed during four-party peace talks," the foreign ministry said. US, Japanese and South Korean officials, meeting yesterday in Seoul to co-ordinate policies on North Korea, agreed that foreign aid would help Pyongyang to overcome its food shortage. "North Korea certainly faces difficulties but it could avert famine with 1m tonnes of international food supplies," the foreign ministry said. *Reuter, Seoul*

Four men in London trial about Montana site deny charges of conspiracy to defraud

Investors in Butte Mining 'were misled'

By John Mason, Law Courts Correspondent

Investors in Butte Mining, a company set up to extract supposedly valuable mineral deposits in the US, were misled by those in control of the company not declaring their interests in share issues, a London jury heard yesterday.

Mr Clive Smith, a large shareholder who controlled Butte Mining, and three others made several millions of pounds between them after failing to declare they stood to benefit from the issues, it was alleged at the Central Criminal Court.

The truth about claims concerning the value of the mining reserves would also be a central issue in the trial, said Mr Douglas Day, prosecuting for the Serious Fraud Office.

Mr Smith, he said, was "the captain of the good ship Butte, put forward as a stately galleon with as much below the surface as above the surface. In fact, it was a flat-bottomed hulk with very little below the surface".

The four men each deny two charges of conspiring to defraud investors by concealing their personal interests in the share issues. They are Mr Smith, an entrepreneur of Balterley, in north-west England; Mr John Clarke, a Butte director; Dr Kenneth Clews, the managing director of Robertson Research, a mining consultancy; and Mr Roy Bichan, a Butte director, the then chief executive of Robertson Research and a former president-elect of the Institute of Mining and Metallurgy.

Mr Day said that during a raid on a firm of accountants in Jersey, the SFO found a web of offshore companies and trusts where the defendants and others acting on their behalf had secreted away many millions of pounds from the fraud. Jersey is the largest of the Channel Islands between England and France.

Mr Smith personally received shares worth many millions of pounds while Mr Clarke made £3.7m ($6m), Dr Clews £234,000 and Mr Bichan £73,000, the court heard.

In 1987 and 1988, Butte Mining made two share issues to raise money for the extraction of precious and base metals from a mine in Butte, Montana, USA, the court was told.

The fraud centred on the fact that the four defendants all stood to benefit from the issues because they had personal interests in the mining rights to be purchased and neither investors nor the London Stock Exchange were told of this, the court heard.

The claimed value of the basic ore was some $292m which would translate into a pre-tax profit of $137m, Mr Day said. A report by Robertson Research stated that the real potential of the Butte mine could be double the stated conservative estimates. But the valuation of the mine was disputed, he said.

"One of the main thrusts of the case is that although the Robertson report puts the ore into a proven category of reserves, the Crown's case is that not enough work had been done to justify putting these reserves into such a high category and saying it was economically extractable. The Crown's case is that it was very much not the case," Mr Day said.

After the issues, shares worth £1 rose in value in London to £1.83, before eventually collapsing to just a few pence.

Partners may scupper 'bomb' disposal effort

The computer date problem is being tackled but big companies need to beware

Big companies are well on the way to tackling the "millennium bomb" but their ability to survive the date change at the end of the century could be compromised by smaller, less well prepared business partners.

This is the principal conclusion of one of the first surveys of year 2000 awareness carried out among large companies worldwide.

The "bomb" – the consequence of the inability of most computer systems to distinguish between this century and the next because of the way dates have been written in computer software – will threaten most business and social systems.

Xephon, a UK-based consultancy, says computer specialists are aware of the danger: "The real problems seem to occur beyond the information technology centre, in embedded systems and in technical, business and legal relationships with partners, suppliers and customers. "Here there is a much larger degree of uncertainty about the future – many respondents either have no plans to explore these areas or simply have not got round to it yet."

It warns: "Bearing in mind that smaller organisations, whose year 2000 survival may be key to the long-term success of the larger sites in this survey, are generally believed to be less aware of the threats posed by the millennium, now could be the time for large enterprises to start including business partners and customers in their year 2000 plans."

The survey was carried out in mid March among 298 users of big computer systems, 159 in the US and Canada, 101 in Europe and 38 elsewhere. These sites, running large-scale software on mainframe computers, would be expected to be particularly susceptible.

The survey revealed that 70 per cent of the sites still had software to correct. The funds allocated to the problem, however, remain small. Almost half the sites surveyed were applying less than 5 per cent of their software resources to the "bomb". The US is clearly ahead of Europe in the amount of resources allocated to the problem and the number of sites which had completed their remedial measures.

Two thirds of the sites said they expected to commit more resources to the problem in future while just over half said they planned to acquire staff to work exclusively on year 2000 software.

The Xephon survey confirms that software specialists with the skills to work on older software will become scarce and will be able to demand premium salaries: "If, and it is a big 'if', the programming resources are available and affordable, most organisations seem reasonably well prepared to cope with their own requirements" it concludes.

Xephon describes as "chilling" the fact that so few seem prepared to investigate the state of preparedness of key suppliers, customers and business partners. Almost a third, for example, had no plans to check the preparedness of companies they used for facilities maintenance, while a quarter had no plans to check on companies in their supply chain. This, Xephon says, is taking trust to the cavalier level.

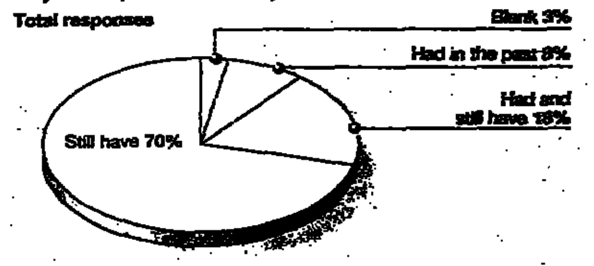
The survey was carried out for Ibex, an organisation for managers of big systems. Ibex is sponsored and administered by Xephon.

Alan Cane

How IT centres face the millenium

Do you have or have you had in the past, any production applications using a two-digit date format for the year which may cause problems in the year 2000?

Total responses



	USA	Europe	RoW*	All sites
No	6	3	1	10
Had in the past	13	7	4	[illegible]
Had and still have	35	12	7	54
Still have	104	78	25	[illegible]
Blank	1	1	1	3
Total responses	158	100	[illegible]	[illegible]

Source: IBEX *Rest of world

Marginal North Sea fields to be developed

By Robert Corzine in London

The first company to specialise in the development of small, "economically marginal" North Sea oilfields has been formed in Aberdeen, Scotland, in what is seen as the start of a third phase in the evolution of the area.

Venture Production is one of the first oil production companies to emerge from the oil service sector. Mr Larry Kinch, a director of Venture, is also chairman of Petroleum Engineering Services, the Aberdeen oil service company in which Halliburton, the big US energy services group, has recently taken a 28 per cent stake.

Executives from Venture say they will use the latest technology, including "smart wells" controlled by computers and innovative financing arrangements, to "redefine the marginality" of the 500 or so small pools of oil bypassed in the past.

PES has specialised in "intelligent well completions", an emerging technology that will enable oil companies to control a reservoir via a computer within the well. Mr Kinch says such technology will be crucial to marginal field development, as it should lead to a 5-15 per cent improvement in ultimate recovery rates.

Mr Kinch said many of the small pools were discovered 25 years ago in the first wave of North Sea exploration. But a combination of their size and distance from existing platforms has made them economically unattractive, especially to the bigger oil companies.

"The large operators say they have bigger fish to fry," said Venture. "But there is a reserve base out there which should last another 30 years."

A study published last week by Arthur Andersen, the accountants and consultants, concluded that about 16bn barrels of oil equivalent remain to be discovered off Britain and Ireland.

Mr Kinch and his colleagues say new technologies can boost ultimate recovery rates and allow earlier production from marginal fields, improving the net value of a development by 15-30 per cent.

Innovative financing techniques will also play an important role in marginal field development. Venture, which has received financial backing from the 3i group, is looking into ways in which funds could be raised on the derivatives market. The company is looking at a listing on the Aim market.

UK NEWS DIGEST

US toy group in $3m NI move

Step2, a US manufacturer of plastic toys, is to open its first factory outside the US in Coleraine, one of the biggest towns in Northern Ireland. Step2, founded in 1991, is based in Streetsboro, in Northern Ohio, and has three factories in the state. It supplies big retailers such as Toys R Us with products including climbing frames and ride-on toys. It also makes plastic household products such as garden furniture and mailboxes.

The company is to invest £1.9m ($3.1m) in the Coleraine plant, and has received a grant of almost £600,000 from the state-owned Northern Ireland Development Board. Step2 said it had considered other sites in the UK and Ireland for the factory, which will be its European production centre. The Step2 announcement is the latest in a series in the past week which will see more than 1,000 jobs being created in Northern Ireland. The Step2 factory will employ 52 people.

■ THE ECONOMY

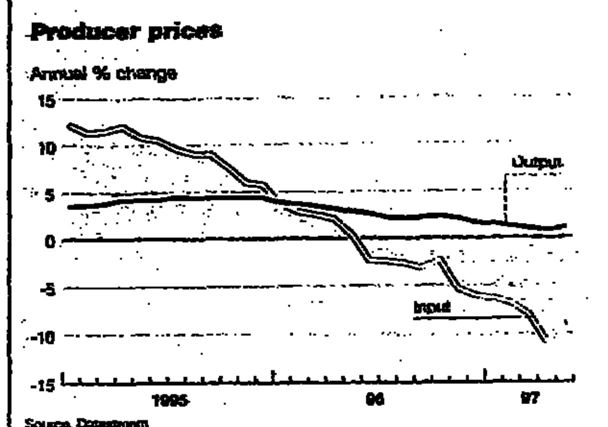
Output increases 1.2% in April

Industrial output surged by 1.2 per cent in April, after a fall of 0.2 per cent in March and a 0.5 per cent decline in February, according to the Office of National Statistics. April's boost pushed the annual increase in industrial output to a healthy 2.2 per cent compared with the increase of only 0.2 per cent in the year to March.

The pick-up in domestic demand was helped by an improvement in the manufacturing sector. Its output grew by 0.6 per cent during April, translating into an annual increase of 2.3 per cent. In the three months to April, manufacturing grew by 0.7 per cent, from 0.4 per cent previously. By comparison, the latest gross domestic product figures showed service industries growing at a quarterly rate of 1.1 per cent.

Mr Simon Briscoe, economist at the Nikko Europe securities house in London, said the production figures were stronger than expected and manufacturing was performing better than anecdotal evidence suggested. But he warned that Mr Gordon Brown, the chancellor of the exchequer, should not be tempted into leaving taxes untouched in the Budget on July 2. "Just because the weakness of exports is being masked does not mean that all is rosy in the economy. Policy should still be biased towards fiscal measures," he said. Meanwhile, retailers reported that sales were continuing to grow at a steady level, up 4.8 per cent. *Richard Adams*

Producer prices



Source: Datastream

■ CHEMICALS

ICI closes plant after gas leak

ICI's Tioxide division has had to close a factory following a pollution incident. Tioxide is the division of ICI that makes the white pigment titanium dioxide. Tioxide last week produced its annual environmental report, which said the company had significantly improved its performance in almost all areas. But last week Tioxide also had to close its works at Greatham, in north-east England, following an emission of potentially toxic titanium tetrachloride gas. The Environment Agency, the government watchdog, said it was the sixth "significant incident" since December 1995. The agency issued a prohibition notice on Thursday preventing the factory from reopening until the company had repaired the affected plant and improved maintenance procedures. *Michael Peel*

■ CHANNEL TUNNEL LINK

Tenders invited for five contracts

London & Continental Railways, the consortium developing the Channel tunnel rail link, has invited tenders for five tunnelling contracts under the capital worth £800m ($1,304m). The 68-mile high-speed rail link between London and the tunnel, which runs between England and France, has been beset by delays because of arguments over its route. The group has already received the first bid for the single largest tunnelling deal, worth £300m. The consortium consists of: Bechtel, the US engineering company; SBC Warburg, the investment bank; Mr Richard Branson's Virgin Group; National Express, the UK passenger transport group; SNCF/Systra, the French consultancy; London Electricity; and Ove Arup and Halcrow, the design engineers.

■ CITY REGULATION

Forex firm wound up in court

Global Foreign Exchange Corporation, a London-based foreign exchange dealing firm, was yesterday wound up in the High Court following legal action by the Securities and Investments Board, the City of London regulator. SIB began its action against Global, alleging it was carrying out unauthorised investment business, after the firm was refused authorisation by the Securities and Futures Association, another watchdog. *John Mason*

Deal on costs at Lloyd's tribunal

By Christopher Adams, Insurance Correspondent

Mr Derek Walker, a former underwriter at Lloyd's of London found guilty of negligence by the High Court three years ago, has been landed with a bill of up to £100,000 ($163,000) after negotiating a settlement with a Lloyd's tribunal.

Mr Walker was one of three underwriters at Lloyd's successfully sued by a group of Names – individuals whose personal assets have supported the insurance market. They were some of the worst hit by the heavy losses of the late 1980s and early 1990s.

He appealed against costs imposed on him last year by a Lloyd's disciplinary tribunal, which had found him guilty of misconduct and supplying false information to auditors. Lloyd's demanded he pay £96,000 towards costs and a £20,000 fine, as well as his own expenses of more than £140,000.

Mr Walker's lawyers said yesterday that a settlement had been reached and the original bill reduced. Mr Walker is still expected to pay a substantial part of Lloyd's costs. The fine will also remain.

Electricity competition warning

By Simon Holberton in London

Electricity competition will fail to deliver gains to Britain's 22m retail consumers unless National Power and PowerGen are forced to sell more generation equipment, according to London Economics, a leading consultancy.

It also says that the two big privatised generators should be stopped from making long-term contracts with electricity suppliers because these deals may inhibit competition in generation and lock in high-priced power for consumers.

The consultancy argues that the big generators have a strategic interest in preventing competition in retail electricity supply.

"Inhibiting the development of competition in supply would potentially enable National Power and PowerGen to blockade further entry into generation, and extract surplus profits from [retail] consumers," London Economics says.

Its report was prepared for East Midlands Electricity, the formerly state-owned enterprise which is now a subsidiary of Dominion Resources of the US. The study has been sent to Professor Stephen Littlechild, director-general of Offer, the industry regulator, and is due to be given to the Department of Trade and Industry today.

It comes ahead of a meeting on Thursday between Mr John Battle, the energy minister, and the chiefs of the UK's 14 public electricity suppliers and Prof Littlechild. Many of the other suppliers are US-owned.

The minister is expected to tell the industry that he is committed to retail electricity competition from April 1998.

The debate about competition has centred so far on the inability of some electricity companies to have their computer systems ready for the start. London Economics' report, however, highlights a different set of concerns.

It says the big generators' market power is likely to extend beyond 2000.

Moreover, their bidding in the wholesale electricity market suggests it remains "uncompetitive" in spite of the transfer of 6,000MW of power stations to Eastern Electricity.

London Economics says the bidding by the three generators deviates from underlying costs. "In a more competitive market a higher degree of correlation [between costs and bids] could reasonably be expected," it says.

Since the end of last year both National Power and PowerGen have been attempting to get electricity companies to sign long-term supply contracts.

It warns, however, that if this is permitted the contracts could be designed so that they prevent new entry into generation and extract excess profits from consumers.

Lex, Page 20

Motorcycles find new niche

By John Griffiths in London

Worsening traffic jams are contributing to a renaissance for motorcycles and scooters. Total UK sales may reach 100,000 this year for the first time in more than a decade.

Statistics issued by the *Motorcycle Retailers Association* yesterday show that sales in the first five months of the year rose by 34.4 per cent to reach 32,288 – up from 24,028 in the same period of 1996. With the traditional August sales "bulge" looming for powered two-wheelers as well as cars the country's motorcycle dealers are well on course to exceed last year's total market of just under 70,000. The "bulge" occurs when up to a quarter of the year's total sales are made in a month because of the issue of a new registration prefix.

"The sales figures for the year so far show clearly that people are fed up with unreliable public transport and permanently congested streets," Mr Kevin Kelly, director of the association, said last night. The association represents 400 franchised motorcycle dealers. The 400 are the majority of those left after the collapse of the UK powered two-wheeler market during the 1980s and early 1990s.

Some 315,000 powered two-wheelers were sold through more than 2,000 dealers in 1980, the industry's record year. It also marked the start of a decline which lasted until 1993, when sales had dropped to 46,724 and virtually an entire retailing structure had been laid waste.

Motorcycle industry observers regarded the decline as marking the end of an era in which motorcycling had been regarded mainly as an affordable alternative to a car for much of the working population.

The renaissance, according to Mr Kelly, "is based on a completely different market: it is mainly leisure-based, with much more stylish and expensive machines being bought – but with their appeal now greatly increased as a result of their ability to cut through congestion".

Importers' share of market for commercial vehicles well below figure for cars

Truck registrations down 9 per cent

By John Griffiths

Registrations of new trucks were 9 per cent lower last month than in May 1996, the Society of Motor Manufacturers and Traders reported yesterday.

The industry could take some consolation from the fact that the decline was less than in earlier months. The sector's continuing weakness, however, is producing mounting concern.

Registrations for the first five months of this year were 19.5 per cent lower than in the comparable period of 1996. Last month's performance was described as "disappointing" by Mr Roger King, the SMMT's public affairs director.

The decline in the trucks sector last month was shared among most truck manufacturers. The exception was Iveco Ford, which registered an 11 per cent increase, despite the market's awareness of its decision to close truck manufacturing in the UK and rely on Iveco-built imports.

Unlike the car trade, in which imports are taking a growing portion of the market, imports of commercial vehicles of all kinds fell again in May to 47.3 per cent, from 47.9 per cent a year ago. Increased activity by retailers and small businesses is thought to lie behind a sharp rise in the market for new panel vans - typified by Ford's market-leading Transit - in May. Panel vans are the larger type which are not based on car designs.

Last month's 22 per cent year-on-year rise in registrations to 11,586 represents an acceleration of the recovery in this sector - which includes light pick-up trucks - since the start of this year. It brought total registrations for the year's first five months to 53,100, a year-on-year rise of 4.1 per cent.

The market for light vans, mainly those derived from cars, also improved last month, rising by 6.7 per cent, year on year, to 7,082.

UK truck registrations: May 1997

	May 1997			May 1996
	Volume	% change	% share	% share
Total	3642	-8.99	100.00	100.00
Imports	2230	-7.62	62.96	62.02
Leyland Daf (Daf Trucks)	695	-15.14	19.82	21.04
Iveco Group * (Fiat)	802	11.23	22.64	18.44
Mercedes-Benz (Daimler Benz)	523	-26.23	14.77	18.22
Volvo	408	-10.92	11.52	11.77
Scania (Investor)	452	-3.21	12.76	12.00
MAN	261	-5.78	7.37	7.12
ERF	139	-22.36	3.92	4.60
Renault	142	1.43	4.01	3.60

Names in brackets indicate ownership * Includes Iveco, Ford and Seddon Atkinson
Source: Society of Motor Manufacturers and Traders; industry estimates

Mr Tony Blair, the prime minister, will address the entire management board of Ford, the second-biggest US motor manufacturer, when it holds its quarterly meeting in London this week, his office said, James Blitz writes. It is understood that Mr Blair will discuss a range of issues with the board, led by Sir Alex Trotman, its British-born chairman. These include investment in Europe and the importance of flexible working conditions in Britain and the US.

Tigers fill up, Page 19

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INTERNATIONAL GAS INDUSTRY

The powerful forces for change unleashed by the liberalisation of the market in the US and UK are transforming gas into a globally integrated industry, says **Robert Corzine**

Natural benefits are recognised

The world's natural gas industry appears to be entering a period of robust good health. Most gas executives shy away from making wild predictions of future success but there is growing talk of a period of sustained high growth as the world begins to recognise the environmental and commercial advantages of natural gas.

Global production last year rose by more than 5 per cent to meet fast growing demand for gas, particularly as a fuel for combined cycle gas turbine power plants.

A host of new fields and infrastructure projects has been announced in a development that could lead to the creation of truly integrated transportation grids in big gas consuming regions such as Europe. International banks have shown a growing appetite to invest in the sector, with loans for key pipeline and liquefied natural gas projects many times oversubscribed. And, as in the oil industry, the application of new technology is helping to bring down costs and to open up new sources of supply.

For those industry executives who have spent most of their careers trying to persuade the outside world of the merits of natural gas, the events of the past few years provide compelling evidence that the sector has finally emerged from under the shadow of the oil industry.

But the rapid growth that looks set to engulf the gas industry over the next decade is unlikely to be wholly benign, and the pace of change that some believe will sweep over the industry in coming years may prove too much for the faint-hearted and those who fail to adapt. In countries such as the US and the UK, where gas market liberalisation has swept away the old monopoly structures of the industry, many gas producers, transporters and distributors have struggled to come to terms with the changes.

In the US some have failed while others merely faded away or were taken over. In the UK there has been a seemingly never-ending struggle between British Gas – now demerged into the pipeline operator and explorer BG and Centrica, the domestic gas distributor – to keep up with its regulator and the demands of growing competition. The company's plight has served as a salient warning to its monopoly counterparts in continental Europe of just how potent regulatory reforms can be for established companies.

But the changes brought about by liberalisation have enabled others to create businesses that did not exist before the wave of reforms hit the industry. The emergence of a deep liquid wholesale gas market in North America has spawned major companies, such as the Natural Gas Clearinghouse and other large-scale gas traders. And the liberalisation of the wholesale gas market in the US has also brought about lower prices. The same could soon happen in Europe.

The US has also led the way in the convergence between the gas and the electricity industries. Utility groups are emerging to provide consumers with energy packages. The economic attractions of highly efficient combined cycle gas fired turbines is such that some established utilities fear they will be left with billions of dollars worth of stranded generating assets made redundant by energy sector restructuring. The American Gas Association predicts that restructured electric utilities and independent power projects will be the fastest growing market segment for gas to 2015, with additional opportunities for growth arising from the expected closure of many nuclear plants.

Liberalisation has taken yet another turn in the UK, where full domestic competition is due to be introduced over the next year or so. The speed with which Britain is entering an era of full competition has frightened many senior figures from continental Europe's gas monopolies, some of whom have been putting up a fierce battle to scupper a new gas directive aimed at the gradual liberalisation of the European Union's gas market. At the time of going to press the fate of the EU gas directive remained uncertain.

But even if a directive does not emerge this year, few in the industry believe there will be any let-up in the demand for change in the European industry, where gas prices are significantly higher than in comparable liberalised markets. Mr James Ball, an industry consultant, warns that "the more they (the opponents of the directive) resist change, the more likely it is that they will be a victim of a sudden change in policy".

Part of the expected change in Europe is likely to come about by market forces linked to the completion next year of a pan-European gas grid. A subsea pipeline now under construction between the east coast of Britain and Zeebrugge in Belgium is the last essential piece in a grid that will stretch from the remote Arctic regions of Russia to Ireland. Its completion will enable the UK to become a significant gas exporter to continental Europe for the first time. The interconnector may also act as the trigger for the formation of Europe's first formal market in gas futures.

Increasing export capacity to western Europe by the main exporters to the region and the prospect of an ensuing gas glut will also put pressure on the existing industry structure. More suppliers may emulate Gazprom, Russia's gas giant, in moving deeper into Europe's downstream gas market.

Integration of infrastructure and the development of new reserves is the main theme in the Mediterranean. Companies such as ENI of Italy are seeking ways to match the reserves of North Africa and Egypt with fast growing gas consuming countries on the northern and eastern shores of the Mediterranean. Some even see the need for a gas ring around the region. Suppliers even further afield, such as Iran, Turkmenistan and Qatar wonder whether they could carve out a share in a greater European gas market.

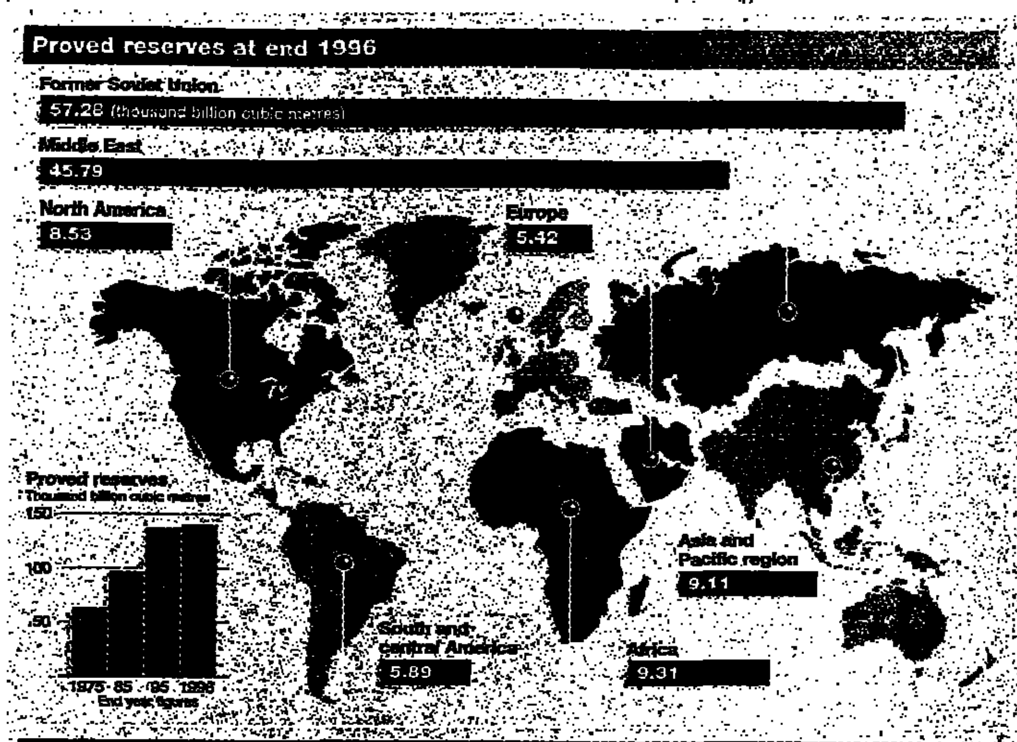
Elsewhere the gas industry is experiencing an investment boom. In South America trunk pipelines are being built to link distant reserves to fast growing power and industrial markets.

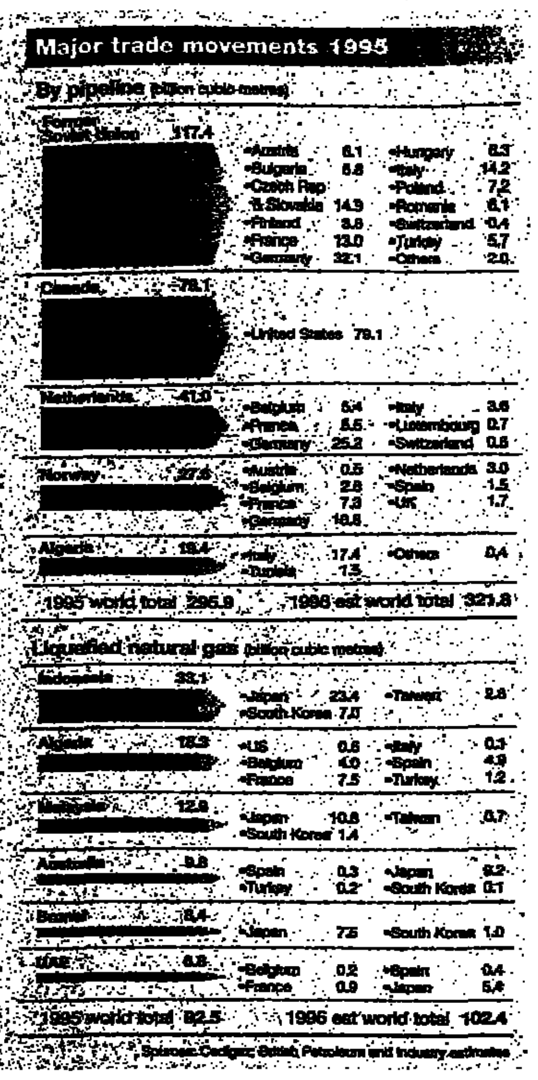
Economic growth is also the main driver behind growing gas demand in Asia. A number of new liquefied natural gas export projects to the region are being promoted, with some aimed at emerging markets in India, Pakistan, China and Thailand. But the LNG industry, considered the most staid element of what has been one of the most conservative sectors, is also facing pressures to change as it moves into riskier markets.

The traditional LNG trade, in which blue chip consumers such as Japanese, Taiwanese and South Korean utilities pay a big premium to secure dependable long-term supplies from mostly Asian suppliers such as Indonesia and Malaysia, seems secure. But many wonder whether the new LNG market may undermine the traditional model.

The positive outlook for the industry overall is also reflected in growing optimism that substantial remote gas reserves, for which there is no present pipeline or LNG market, may soon be able to be converted economically to virtually pollution-free diesel fuel. Companies such as Royal Dutch/Shell, Exxon, Statoil and Sasol are scrambling to fine-tune the technology that could see gas for the first time making inroads into traditional oil markets.

Many older executives meeting this week at the International Gas Union in Copenhagen can take pride that an industry they know well is doing so well and in such an independent way. But they should be careful not to dwell on the past. Powerful forces have already been unleashed that promise to transform the industry. There is no turning back.





Top 10 gas companies 1995

By production (billion cubic metres)				By reserves (billion cubic metres)			
1	Gazprom	Russia	[illegible]	1	Gazprom	Russia	49,270
2	RD/Shell	Neth/UK	71.5	2	NIOC	Iran	20,963
3	Exxon	US	[illegible]	3	QGPC	Qatar	7,070
4	Sonatrach	Algeria	58.1	4	ADNOC	Abu Dhabi	5,380
5	Mobil	US	[illegible]	5	Saudi Aramco	Saudi Arabia	5,341
6	Amoco	US	43.8	6	PDVSA	Venezuela	4,012
7	Saudi Aramco	Saudi Arabia	[illegible]	7	Sonatrach	Algeria	3,696
8	NIOC	Iran	35.1	8	Pertamina	Indonesia	3,520
9	Chevron	US	[illegible]	9	NNPC	Nigeria	3,4[illegible]
10	Pemex	Mexico	26.6	10	INOC	Iraq	3,350

Sources: Cedigaz; British Petroleum and industry estimates

2 INTERNATIONAL GAS INDUSTRY:

LIQUEFIED NATURAL GAS • by Robert Corzine

Asia leads the LNG field but other regions are expanding - a new LNG plant in Trinidad owned by the Atlantic LNG Company is aimed at Europe and the US

Cosy old club sheds its exclusive image

New projects and new rules may impact on old markets

For many years the world's liquefied natural gas industry has been run on the lines of an exclusive club. Everyone knew each other, and perhaps more importantly, the handful of buyers and sellers agreed on a set of rules that, in the words of one executive, "defied the simple laws of economics".

Buyers such as Japan agreed to pay premiums for secure LNG supplies and to guarantee the purchase of large volumes over long periods. Sellers installed expensive redundancy to their plants to reassure the buyers. They also accepted relatively low returns on a net present value basis, in exchange for large, long-term cash flows.

But the cosy, club-like arrangements between three big blue chip Asian buyers – Japan, Taiwan and South Korea account for the lion's share of the world's LNG trade – and a handful of sellers are being challenged by entrants to the industry and the emergence of markets with radically different requirements.

Over the past few years a large number of countries with significant gas reserves in the Middle East, Africa, the Caribbean and Asia have announced their intention to enter the industry, while the established sector leaders, such as Indonesia and Malaysia, have decided to add to existing capacity.

Executives say the surge in activity is partly due to improving economics. Although most LNG projects are multi-billion dollar ventures, the "gold plating" that characterised many of the first generation plants, with their emphasis on reliability, is no longer seen as such an essential element. In addition technological progress has helped to bring down the unit cost of the individual liquefaction processing units or trains, which have also grown considerably.

The market for LNG has also proved to be robust. The environmental and economic benefits of using LNG to fuel combined cycle gas turbine power plants has been a powerful factor behind growing demand in both the Asian LNG-consuming countries and in new markets.

Another important factor behind the growth of the industry has been access to the large amounts of capital needed to underwrite such deals. In recent years bankers in Europe and the US have joined the Japanese banks in funding projects.

Qatar is a case in point. Ten years ago, say bankers in London, few big international banks would have been prepared to lend the billions of dollars needed to get the Qatar Gas and Ras Laffan gas projects off the ground. But the combination of long-term contracts from Japanese and South Korean utilities and the long-term US dollar cash flows produced by such projects means bankers are no longer reluctant to make large loans to projects in relatively unknown countries.

The banks have also come to believe that LNG projects can be viable even in countries whose overall political stability is questionable. Many LNG plants are in remote areas of the producing countries, while the hard currency cash streams mean most governments of whatever make-up would be loath to see them end.

But a big question facing the industry is whether new projects aimed at second or even third tier consuming markets will find the same levels of financial support as those aimed at traditional LNG consuming countries. There is also concern as to whether new rules will upset the established way of doing business.

"For the time being the old markets will continue to buy in the traditional way," believes Mr Martin Houston, director of LNG at British Gas International, the upstream arm of BG plc. "But the conundrum for a lot of people is how will the new LNG business impact on the old markets.

Although some new LNG ventures, such as the Nigerian project at Bonny Island are aimed at Europe, the main emerging markets remain in Asia in China, India and Thailand.

But as Mr Houston notes, the new LNG market is likely to "be a much riskier business". But it is not only an issue of creditworthiness and the price they may be willing to pay. "Volume could also be a stumbling block," says Mr Houston.

The viability of new LNG markets may also depend on how successful producers are in attracting LNG users outside the power generation sector.

Such countries might also need more flexibility in the long-term contracts that underpin the industry. Shorter contracts, price reopeners and flexibility in volumes may soon make an appearance. But not everyone in the industry expects radical change. "I don't see vast changes in the structure of the contracts," says Mr Doug Buckley, head of the downstream gas business at Shell's Malaysian subsidiary, a minority partner in the giant Bintulu LNG project.

But whatever changes are in store, there seems no shortage of companies seeking a way into the business. As Mr Houston notes: "Once the debts have been paid off, LNG plants are an enormous cash machine."

ASIA • by Andrew Symon

Foundation for regional growth

Investment is needed if ambitions are to be more than pipe dreams

Gas in Asia is promising to enter a new era, becoming a key building block for economic development in the region. But if gas is to achieve its potential, then a huge amount of capital is needed to build the infrastructure to transport gas to markets – be it for domestic transmission systems for countries which have their own gas resources or for gas traded across borders to those without through pipelines or liquefied natural gas (LNG) processing, shipment and receival port facilities.

The Asian Development Bank (ADB) estimates financing of at least $70bn during the next 15 years is needed for the programmes of its developing member country governments in Asia. And, as in other infrastructure sectors, mobilising this level of resources will put pressure on governments to allow private sector investment and competition in what in many cases have been public sector monopolies, and complementary reform of public sector utilities.

As ADB executive director, Julian Payne of Canada says: "Financing of such huge amounts clearly requires rethinking of some of the past financing practices and a redefinition of the role of the public sector. "Gas use and production in the region are expanding at about six per cent a year, some five times the world rates. However, Asia's share of world gas consumption is still only 10 per cent or about 7 trillion cubic feet (TCF) a year. This is despite the often near double digit GDP growth rates of countries in the region.

There are plenty of gas resources that can be harnessed within the region with a total reserves to production ratio (R/P) of more than 65 years and good prospects for more discoveries.

The problem is getting the gas to market, as John Soderbaum, principal author for the Paris-based International Energy Agency's *Asia Gas Study*, and *Asia Electricity Study*, and now independent consultant, says, "It's a bit of a chicken and egg situation. Once there is supply, then demand will grow. We have seen it again and again. As soon as a piped grid is in place, power plants and industrial users start switching over. "And once the infrastructure is in place to supply gas, then there are big incentives for other companies to explore it if they are able to supply gas through the pipelines," Soderbaum says.

When gas is available to consumers then there is a lot in its favour. The fuel is efficient, its environmental impact in terms of polluting emissions is lower than for other fossil fuels, and gas fired power plants can be built at lower cost and more quickly than coal fired and nuclear power plants.

But in the power sector in Asia, reflecting the absence of gas grids, it is coal-fired, rather than gas-fired plants, that are expanding at a faster rate, according to Australia's Bureau of Agricultural and Resource Economics (Abare).

The distinctive characteristic of gas in Asia, unlike in Europe and North America, is the large role played by LNG, supplied by Indonesia, Malaysia and Brunei within the region, and Australia, the Middle East and Alaska from without. Asia accounts for more than 75 per cent of world LNG consumption. This is a product of high demand from Japan, and more recently South Korea and Taiwan, which lack their own gas resources. Asian producers of natural gas, until recently, were producing almost entirely for LNG export, rather than for domestic markets. Indonesia and Malaysia are only part of the way towards establishing their own national grids.

There is virtually no international pipeline gas trade, with the only cross border pipeline being that between Singapore and Malaysia, unless one also counts the recently completed pipeline from China's Hainan region to Hong Kong. There are visions though of changing the face of Asian gas through pipeline networks stretching across regions and even continents.

Most dramatic are proposals of the National Pipeline Research Society of Japan and the Korea Pan-Asia Natural Gas Association for pipelines from Alaska to Europe with connections between east Siberia and the Russian Far East to Japan, Korea and China. There is talk of pipelines from Turkmenistan in Central Asia through China to Japan, from Turkmenistan to south Asia, and a trans-Asean system.

However, most observers believe that regional and sub-regional pipeline development will be incremental. In the meantime, LNG sea shipment will continue to play a large role with Thailand, India and possibly China becoming importers, at least until local reserves and systems are developed and international pipeline connections are made.

"There will not be a grand government plan approach," says Mr Soderbaum. "It is a question of governments not having money for grand schemes. What we will see is a piecemeal approach with countries working up their own domestic pipeline systems within their countries and the economics of connections between countries will become increasingly obvious. Governments will do some of it, while the private sector will step in more and more."

This seems to be starting to take place in south-east Asia. A pipeline is under construction involving Total of France and Unocal of the US to supply gas from Burma to Thailand, a controversial project in the light of the new US sanctions on Burma. Proposed are pipelines from Indonesia's large Natuna D-Alpha field in the South China Sea to Thailand, possibly with a connection to Malaysia, and from Indonesia's West Natuna field to Singapore.

Within forums such as Asean and Apec, the focus is on energy sector co-operation on the seemingly pedestrian matters of harmonising technical regulations over sizes of pipe, gas content and gas pressures as well as harder questions of gas pricing and third party access, especially of suppliers, to pipelines. "People talk of deregulation, but it is more a matter of changing regulation, and designing smarter, better regulation," says Mr Soderbaum.

** Andrew Symon is the Singapore-based editor of the Financial Times monthly newsletter, Asia Gas Report*

LNG Demand in Asia Pacific (million tonnes)

	1994	1995	1996	2000 low	2000 high	2005 low	2005 high	2010 low	2010 high
Japan	41.2	41.5	46.6	[illegible]	55.5	[illegible]	60	60	70
S. Korea	5.7	6.8	9.5	[illegible]	17.5	[illegible]	23	18	28
Taiwan	2.2	2.5	2.5	6	8	[illegible]	12	12	14
India				[illegible]	[illegible]	[illegible]	2.5-5	2.5	2.5-5
Thailand				[illegible]	[illegible]	[illegible]	2-6	2	2-6
China				[illegible]	[illegible]	[illegible]	2-4		2-4
Total	49.1	50.9	58.5	[illegible]	81	[illegible]	[illegible]-110	94.5	118.5-127

Source: Cedigaz and East West Centre, Hawaii

EU LIBERALISATION • by Neil Buckley

A market in transition

Most barriers to cross-border competition are falling but some obstacles remain

After eight years of negotiations, the question of an agreement to open the European Union's \$100bn-a-year gas market to cross-border competition has finally become one of when, rather than if. But the battle is not over.

EU energy ministers made less progress than hoped towards bridging the biggest remaining gap in Europe's single market at a meeting last month – partly due to political uncertainty in France, which was between the two rounds of its parliamentary elections.

The victory of the French Socialists, more cautious about liberalisation even than their predecessors, will pose new questions over the planned directive.

It also complicates the task of the Netherlands, still considering whether to hold a special ministerial meeting to try to tie up agreement on gas before the end of its six-month presidency of the EU on June 30.

June 24 has been earmarked, but officials say the meeting will only be called if it is virtually certain agreement can be reached. Mr Hans Wijers, Dutch energy minister, put the chances at "50-50" before the French Socialists' victory.

Progress towards a single market in gas has been hampered by certain EU states' desire to defend powerful national monopolies. There are also concerns about the strategic importance of gas, since 40 per cent of EU needs come from external suppliers – Russia, Norway and Algeria. The proportion is forecast to rise towards 60 per cent early next century.

But Mr Christos Papoutsis, EU energy commissioner, says breaking down bilateral relationships between gas distribution monopolies and non-EU suppliers is the best way of securing future supplies. A single gas market, with pipelines spanning the continent, would make Europe better able to cope with supply interruptions.

"If we don't have an internal market in gas, that means every member state will be dependent, and ultimately the European market will be dependent, on external gas suppliers," he says.

Competition between gas suppliers should also lead to lower prices for industrial customers, and stimulate demand growth.

But the differences between the gas and electricity markets mean the shape of the gas directive will be somewhat different from the electricity directive agreed last summer.

The biggest difference will be the provision for "derogations", or temporary exemptions, for large gas distributors from the requirement to open their networks to competitors, to the extent that doing so would cause demand for their gas to fall below levels they had signed long-term contracts to buy.

This is the solution to the complex question of long-term, "take-or-pay" contracts – the issue that has taken up most negotiating time.

Other EU states have eyed warily the problems which befell British Gas, the former UK monopoly, after liberalisation of the UK gas market. Competition eroded its market share, leaving it with billions of pounds of gas it was contracted to buy but could not use, often at prices higher than prevailing "spot" prices.

Both internal EU gas producers and external suppliers have also followed the issue anxiously. They need long-term contracts as guarantees before pouring the hundreds of millions of dollars required into developing gas fields.

All EU states have agreed in principle to derogations, but are divided over the criteria to be used for granting them – and who should decide.

Mr Papoutsis insists the European Commission should police the issue.

"The commission must have responsibility in this case, otherwise there will be no certainty among member states on the mechanism that will be used," he says.

States such as Germany and France, however, insist decisions should be made at national level – something which makes pro-liberalisers profoundly uneasy. Large gas users say derogations could be abused to keep gas markets closed.

A compromise may leave the decision over derogations affecting existing take-or-pay contracts at national level, but give the commission power over future contracts, entered into after the gas directive is in force.

The second important difference from the electricity directive is likely to be the mechanism for opening the gas market to competition.

A phased approach is likely, as with electricity, where about 22 per cent of the market must be opened initially, rising to about 28 per cent after three years and 32 per cent after six years.

But the gas directive is likely to mix such "quantitative" targets with "qualitative" criteria, or definitions of types of consumers which must be eligible to shop around for gas supplies.

The draft directive before ministers last month said all gas-fired power generators, irrespective of size, would be "eligible customers", plus other large users consuming more than a fixed volume of gas. If opening the market to these eligible customers did not result in a total percentage opening of the market between agreed minimum and maximum levels, EU states could either broaden or narrow the definition of eligible consumers in order to bring the total percentage opening within the required band.

Both the minimum and maximum percentage levels would be increased after five years and 10 years.

The last French government, however, came up with alternative proposals. Instead of percentage bands for market opening moving over time, it wanted the definition of eligible customers to be changed.

It argued that, unlike with electricity, there are vast differences in the structure of the gas market in different EU states – in Finland, for example, it is dominated by industrial users, with few domestic customers; countries such as France, Germany and the UK have huge domestic customer markets. The only way to ensure market liberalisation affects broadly the same size of customers in all countries – and large gas users of similar size can expect to benefit from competition whichever EU state they are in – is to base the deal around customer sizes. The solution may be a mixture of the French and Dutch presidency approaches.

The precise figures – as opposed to the mechanism – will be the last element to be agreed. As with electricity, this is likely to come down to haggling between supporters of broad competition, such as the UK, Germany, and Scandinavia, and those which want to limit competition, such as France and Belgium.

If the Netherlands cannot get an agreement, Mr Papoutsis has said he will insist on Luxembourg, incoming holder of the EU presidency, holding a meeting in July. Luxembourg, however, would prefer the Netherlands to tie up the deal.

For gas producers, distributors and users facing the biggest change in the market for decades, who does the deal is not important. But they would like it to be done quickly.

UK LIBERALISATION • by Robert Corzine

Fast model which may be followed

A culture change followed the opening up of the British market

To some, the rapid liberalisation of Britain's gas market over the past few years has been a compelling reminder of just how powerful competition can be in lowering prices and extending choice to industrial and individual consumers alike.

But others, including many executives in continental European gas monopolies, see it as a unique and unsettling experiment with little relevance to their countries.

But what does one of the main architects of UK liberalisation and a prominent advocate of European gas competition think? Does the UK model have any relevance to continental Europe?

Ms Clare Spottiswoode is the director general of Ofgas, which regulates the monopoly aspects of Britain's gas industry. She has also been the driving force behind the rapid, but phased opening of the domestic gas market of 19m consumers to competition in 1998.

Not surprisingly, she is generally pleased at the evolution of competition in the UK. "It's gone remarkably well," she says. "Much better than I expected."

Ms Spottiswoode disputes the view that the UK example is of little use to Europe. Although she concedes that the national gas surplus that emerged in Britain around 1994 was unique – in that it allowed the government to set a faster pace of reform than many industry figures thought possible – the underlying factors behind the opening of the UK market are just as relevant to continental Europe.

The main justification is competitiveness, she says. The decision for many European industrial gas consumers will be whether they relocate to countries with cheaper supplies.

But continental Europeans need not slavishly copy Britain's formula. "We only want to create a chink" in the present monopoly system, she says. Once even limited competition is established, Ms Spottiswoode is confident that the benefits of free markets will soon be embraced, even if they differ in structure from the UK.

But she says three main elements are needed to ensure that gas competition takes hold. "You first need to separate out the natural monopoly," she advises. Then there has to be non-discrimination in access to the monopoly pipeline and an independent arbiter to settle the inevitable disputes that will arise during the change-over from a monopoly to competition.

But should the continental Europeans also adopt the UK method of regulation, in which a single individual is given wide-ranging powers with little accountability? "I can't see any other (European) country going for an independent regulator," she admits. Nor is a European Union gas czar likely to emerge: "No one wants an EU regulator."

The liberalisation of the UK gas market has not been without its casualties, however. British Gas – the old monopoly now demerged into BG plc, the pipeline operator, and Centrica, the domestic gas supplier – has seen its share price suffer badly in recent years as Ms Spottiswoode and her colleagues have accelerated the pace of liberalisation.

Some of Ofgas's critics believe her approach has been "too academic," however. They say Ofgas has taken steps in isolation, and without thinking through how its actions may affect the reliability of the pipeline system in the long term.

Ms Spottiswoode is unrepentent. Her goal is to strip Transco, BG plc's pipeline subsidiary, down to its narrowest natural monopoly.

She believes her tough approach to Transco is having a beneficial effect on the company. "The culture is changing at BG," she says. They will emerge from this a leaner and more competitive company."

Continental European governments who have watched the painful process of reform and restructuring at the old British Gas might disagree. But Ms Spottiswoode says they should ask themselves a simple question: "Do you want a sleepy giant or a nimble international competitor?


Clare Spottiswoode: "the culture is changing at BG"

Competition allows you to create a British Telecom or a British Airways. It means the complete transformation of a company."

But competition has also created some problems, such as the future of the take or pay contracts on which the monopoly industry was based. These required British Gas to take all the gas from contracted fields even if it no longer needed it. The rationale of the contracts was that North Sea producers would only go ahead with the billions of dollars worth of investment in offshore fields if they had a guaranteed life-of-field market for their gas. The contracts also gave British Gas the security of supply it needed to embark on major onshore pipeline projects.

Although Ms Spottiswoode says continental Europe need not embrace the full market liberalisation model of the UK, she believes it will eventually emerge because of consumer pressure. Once power stations and some industrial users are given a choice of gas suppliers, it is only a matter of time, she believes, before it "cascades" into the domestic market. "Especially if it works well over here."

EUROPE • by Robert Corzine

Trading partners watch and wait

As the network extends across the continent, key exporters must take stock

The massive map that takes up an entire wall at the Milan control centre of Snam, Italy's gas supply monopoly, illustrates the scale of moving vast amounts of gas from remote areas of Europe and North Africa to the heavily-populated industrial heart of the continent.

Coloured lights denote the status of compression stations along the thousands of kilometres of high pressure pipelines that snake back to the great gas fields deep in western Siberia and across the Mediterranean Sea to Algeria's Sahara desert.

Other lines that meander across the North Sea bring in gas from Norway's offshore fields. Late next year the UK-Continent Interconnector between the east coast of Britain and Zeebrugge in Belgium is due to be commissioned. Its opening will mark the completion of a pan-European gas pipeline system and the emergence of the UK as a gas exporter to continental Europe for the first time.

For some it will be seen mainly as a technical achievment. But for others, including the main gas exporters to Europe, the completion of the network will mark the beginning of a new stage in the \$100bn a year European gas industry. They sense that change is on the way irrespective of whether the European Union this year approves a Gas Directive.

But what is not so clear is how that change will affect Russia, Algeria and Norway, the main non-EU suppliers, and the Netherlands, the principal gas exporter within the Union.

The importance of those countries to the European gas industry cannot be overemphasised. Likewise, the importance of the European market to their economic and, in some cases, political stability, is significant. The gas exports sent to western Europe by Gazprom, Russia's natural gas giant, account for 6-8 per cent of that country's GDP and provide a quarter of the government budget. Long-term contracts between Gazprom and western Europe are worth about \$185bn over the next 15 years. In Algeria's case gas and oil revenues fund the government's bloody struggle with its Islamist opponents.

Critics of liberalisation point to the EU's dependence on such countries as one of the main reasons for maintaining the status quo. They argue that liberalisation only worked in North America and the UK because both were self-sufficient in gas.

Advocates of liberalisation say competition helps create deep liquid markets that will encourage new suppliers. "Are you more secure from three sources or from 50?" asks Mr James Ball, managing partner of London consultants Gas Strategies.

A recent survey of big EU gas users by Price Waterhouse, the international accountants and consultants, showed that 80 per cent of those who responded did not see security of supply as a threat in a liberalised market.

That view is based in part, perhaps, by a perception among large industrial and commercial consumers that a shortfall of supplies is unlikely. The fact that deliveries from Gazprom continued through all of the political turmoil in Russia in recent years and that supplies from Sonatrach, Algeria's state energy company, have not been interrupted by the civil war, reinforce that view.

So too does the fact that Russia, Algeria and Norway continue to plan for big increases in their export capacity. A recent study by Wood Mackenzie, the Edinburgh-based industry consultants, concluded that the marginal cost of supply into Europe by Gazprom, which "... has by far the greatest ability to supply incremental volumes from existing production facilities ... is determined by transit costs rather than production".

In addition, other large gas suppliers see Europe as a future market. A new pipeline is planned from Libya to Italy, with the possibility of a spur linking it to big new discoveries in Egypt. New gas pipelines are being contemplated from Turkmenistan and Iran to Europe. Gas could also flow northwards from big Gulf producers such as Qatar. New liquefied natural gas projects such as the one under construction in Nigeria are also aimed mainly at Europe.

Some producers warn, however, that they will not continue to invest billions of dollars in production and transportation facilities without an assurance of a return. Others also want to be reassured that a potential price free-for-all would not undermine the sanctity of long-term contracts.

Exxon, which along with its North Sea partner Royal Dutch/Shell, is a leading gas producer within the EU, accepts that changes are needed to Europe's gas market. But it warns of moving too far to reform the present system, especially as it pertains to long-term contracts. "Minimum offtake (take or pay) provisions are needed to underpin past and future investments," it contends.

That view is likely to be shared by the big non-EU producers. But is it enough for them to focus their lobbying effort on retaining at least a semblance of traditional contracts? Should they be looking beyond their role as suppliers?

Mr Ball of Gas Strategies says they need to begin to position themselves now for a liberalised market. "Staying in one place as a producer is inherently insecure," he says. "They need to go downstream now."

He believes Gazprom, which has entered a number of downstream ventures, is best placed to weather liberalisation. Algeria has made some moves downstream, including a marketing joint venture with British Petroleum. But Mr Ball says Sonatrach is handicapped by "the inbuilt conservatism in Algiers."

THE GULF • by Robin Allen

Lost opportunities as politics hinder prosperity

Suspicions and hostility still plague an area rich in resources

The history of gas development in the wider Gulf region over the past two decades is largely a story of lost opportunities, with some individual states now trying to make up for lost time.

All governments in the region, Iran, Iraq and the six states – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE) – which comprise the Gulf Co-operation Council (GCC), have traditionally regarded their upstream oil and gas areas as state monopolies, to the exclusion of the private sector with its emphasis on risk, innovation, and competitive market pricing.

Apart from owning 65 per cent of total proven global oil reserves, these eight countries also possess more than 30 per cent of the world's supplies of natural gas. Iran is second in the world league behind Russia and Qatar fourth behind North America. Abu Dhabi, the richest of the seven city-states which make up the UAE, and Saudi Arabia, are not far behind Qatar.

Politics has played havoc with the development of gas resources. Instead of pooling their energy assets and deregulating their economies, the contemporary history of these states is marked by mutual suspicion or outright hostility, coupled with an almost total dependence on foreign technology; and, in the case of Iran and Iraq, fractious or non-existent relations with precisely those western countries which can provide the technology they need.

More than 15 years after its formation, the GCC, which has mutual economic development at the core of its charter, has done nothing to develop a regional gas or power grid.

Five main reasons lie behind the recent enthusiasm for LNG projects. Firstly, once development costs are amortized, states earn extra revenue from liquefied natural gas (LNG) customers.

Second, Gulf governments get paid for the gas feedstock supplied to petrochemical companies; and third, since governments own a majority stake in the petrochemical companies, they earn more money from export sales of petrochemicals products.

Fourth, the condensates which accrue from separating the gas liquids also find a ready market; with the additional bonus that sales of condensates are not limited by OPEC quotas. Fifth, the mere construction of LNG facilities and petrochemical plants spawns a mass of jobs and local sub-contracting, supply, and service industries.

If Gulf states have traditionally been unable to combine on regional gas projects, a few at least, notably Abu Dhabi and Saudi Arabia, have been individually harnessing their associated gas reserves for the past 20 years not only to fuel domestic power plants, but also to sell abroad under bilateral agreements.

Abu Dhabi has long been exporting sweet gas and natural gas liquids, mainly to Japan but also to Europe. In the last 15 months it has embarked on a $10bn programme to develop its petrochemicals industries and expand natural gas output to meet domestic power demand. This is expected to more than double to 4bn cubic feet a day (CFD) by 2005.

Saudi Arabia built its Master Gas system at the end of the 1970s to fuel its power plants, and as feedstock for its petrochemicals industries, dominated by the state-controlled Saudi Basic Industries Corporation (Sabic). The government is now fully stretched meeting rising domestic demand for power.

Iran and Qatar have only seriously started trying to lure foreign investors into developing their natural gas sectors in the last two years: Qatar with great success; Iran, thanks to its own suffocating bureaucracy and the threat of US sanctions, with little to show for its efforts outside the neighbouring central Asian republics.

Only since November 1995 has Iran been trying to encourage foreign companies into its petrochemical ventures and gas export plans. According to spokesmen for National Iranian Gas Company, it intends to double gas exports to 4.5bn cubic metres a year (cmy) by 2000, and to increase these twentyfold to 42.5bn cmy by 2005.

It has signed gas export agreements amounting to 4.5bn cmy with Turkey, Armenia, and Azerbaijan. Other customers, such as Pakistan, India or countries in Asia, may be harder to tie down because regional political disputes make it almost impossible to lay pipelines through different countries to bring the gas to the market.

Similarly, Iran's talks with France's Total and Royal Dutch Shell to develop the South Pars gas field in the Gulf are made more complicated by the threat of US sanctions against international companies and banks which might otherwise be interested in the financing.

Iran is even finding it hard to attract international companies to its embryonic free-zone on Qeshm island in the strait of Hormuz, even though abundant supplies of natural gas are there for the taking.

Qatar has had more success in a gas export programme greatly speeded up since the present ruler took over from his father in June 1995. It is well advanced with two gas export schemes totalling some 16m tonnes per year (tpy) from its North Field gas reservoir.

If other plans come to fruition, Qatar will be exporting more than 20m tpy within six years and almost 150,000 barrels a day of condensate.

US • by Christopher Parkes

California jumps deregulation gun

Partnerships to form hybrid suppliers are transforming the landscape

The competitive impact of the deregulation of the US natural gas market, which started in the mid-1980s, has been given a boost by the impending introduction of a free market in electricity.

It is presenting opportunities for a handful of mainly gas companies which have in the past few years been preparing to transform themselves into hybrid energy suppliers to the nation.

One of the earliest and potentially most enriching prospects is opening in California, where the state legislature and Public Utilities Commission have jumped the gun on the federal deregulation process.

Starting on January 1 next year, all electricity markets will be open to competition. Starting last January, Enron – acknowledged leader in the energy trade, with a claimed 17 per cent share of the gas wholesale market and a declared aim of winning 15 per cent in electricity – was already staking out its territorial claims in the Golden State.

The Texas-based group formed an alliance with a small, regional group of municipal electricity utilities under which it undertook to link its new partner into its sophisticated network of gas and power supply lines. It would, it said, provide cheaper power from its resources whenever appropriate, sell off any surpluses outside the co-operative's territory, and pipe in gas to compete with the group's long-term sole supplier, Pacific Gas & Electric.

The partners' next step was to go visiting other local municipalities, offering more of the same in a market rich with possibilities. The electricity business in the most populous state in the country – and one of the fastest-growing – is today worth an estimated $20bn a year in revenues, with power prices some 30 per cent higher than the national average.

While most of the state's seven investor-owned electricity utilities and all of its dozens of municipal supplier try to come to terms with the deregulated future, Enron is benefiting from the experience in energy trading, transport and storage garnered during the 10-plus years since the deregulation of the US gas industry got under way.

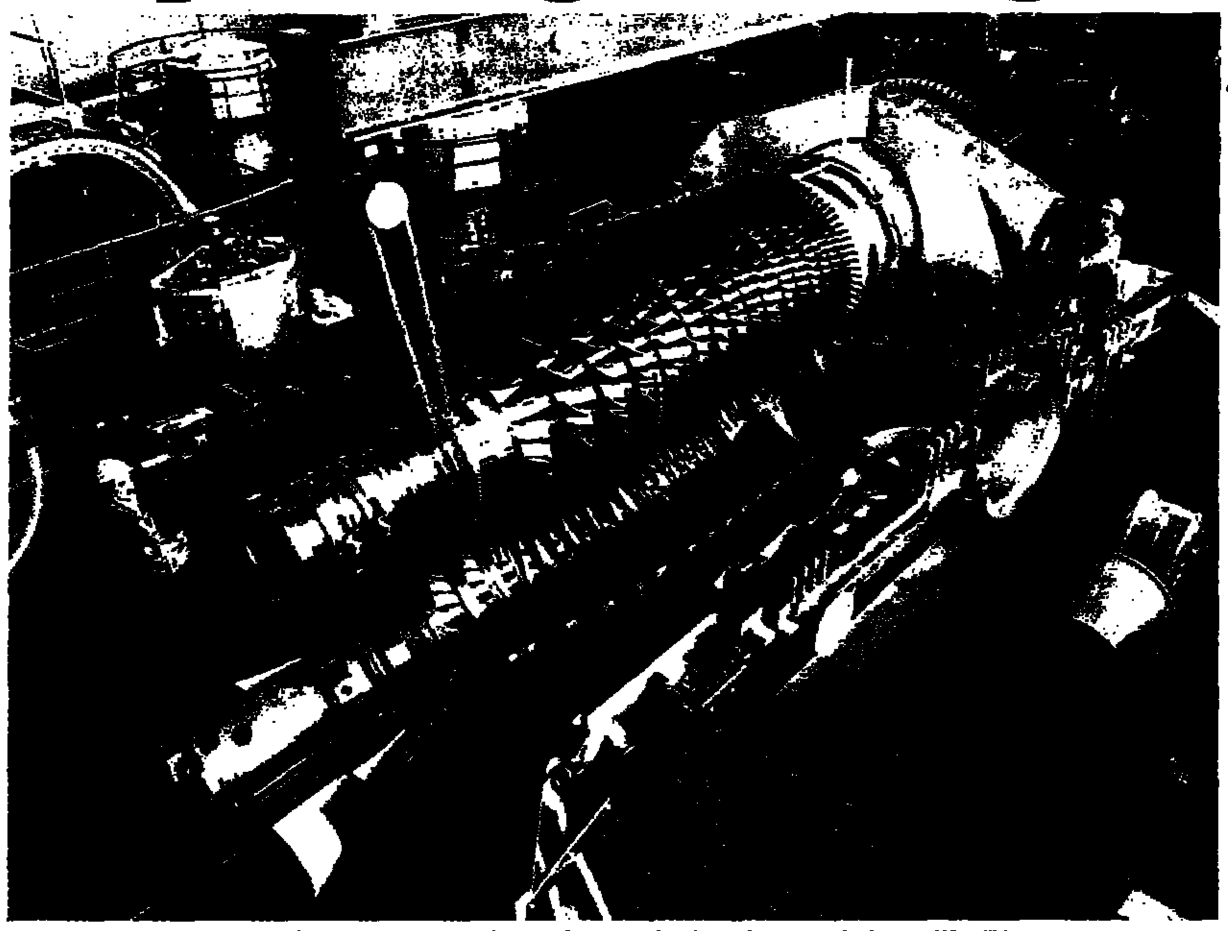
Mr Jeffrey Skilling, group president, recently gave electricity utility executives an unnerving glimpse of what lies ahead for them. Addressing a conference in Arizona, he described the early stages of gas deregulation as "chaos", as prices and profits tumbled, destroying the gas industry's credit rating and forcing Enron to slash costs by 70 per cent.

Electricity, he said would be affected in much the same way, with "all the unfavourable characteristics of commodity chemicals – and none of the positives".

Although he had a vested interest in presenting his company as a battle-hardened survivor and, accordingly a suitable partner for electricity concerns, his speech served to underscore the travails the gas industry has been through.

Now, however, with an asset value of $15bn in US and overseas interests, the former pipeline company stands to profit.

Last year, when the value of gas and electricity mergers and acquisitions reached $70bn, Enron made its decisive shift into the electricity market. Even though only a few states had drafted legislation and federal policy was still undefined, companies were taking up position.



The combined cycle gas turbine has been the technical innovation which has helped to revolutionise the US utilities sector

As Mr Skilling told the Arizona conference, experience showed that no matter how slowly the political and bureaucratic processes advanced, once deregulation was initiated, it gained an unstoppable momentum as market forces took control. He predicted that more than half the US power market would be effectively open to competition within four years, even though only half a dozen states have so far started the process of winding down the monopolies.

Accordingly, Enron last summer paid $3.2bn for Oregon's Portland General, joining a trend which saw gas and electricity groups across the country merge to become hybrid suppliers.

It is now, analysts say, one of a small group of emergent energy conglomerates – in company with NGC, part-owned by British Gas, PanEnergy and Amoco's gas division – which are likely to shape the industry for the foreseeable future.

Enron sees itself in grandiose terms as an "integrated energy solutions" concern, which stands to profit whichever way the markets move. Behind its utilitarian facade (currently being softened with a national advertising campaign to introduce consumers to the alien concept of a branded gas and electricity) it conceals a sophisticated commodities trading operation, buying selling, and moving energy.

At the operational end, it will sell gas to an electricity-generating customer, for example, and – if market conditions require – buy the power produced for sale elsewhere, simultaneously piping in cheaper power – and, hopefully, turning a profit on each transaction.

And if the company and its emergent peers live up to expectations, they will soon add another source of revenue and profit as they turn to retailing energy. Selling gas and electricity directly to consumers, using the same telephone marketing techniques applied by long-distance telephone carriers which deliver their services through the deregulated networks of the local and regional phone groups, seems the next logical step.

According to industry specialists, such a transition will oblige the energy providers to acquire marketing skills – probably through joint ventures, but possibly via mergers – such as those common in the telecommunications business.

The age of all-in-one home service provider, offering phones, cable TV, power, gas, water and internet access – all delivered daily direct to the home –-may not be so far away.

MEXICO • by Daniel Dombey

Slow reform welcomed

The sector has been growing slowly as competitors are given more access

For years, Mexico's gas sector was neglected. Petróleos Mexicanos (Pemex), Mexico's state oil monopoly, which retained control of all branches of the natural gas industry, was barely interested in the low-margin business of improving the sector's infrastructure.

For much of the 1980s, the gas extracted from the sea as a by-product of oil drilling was routinely burnt off. Even in the early 1990s, the liberalisation of Mexico's energy industry faltered because gas pipelines for two prospective private power plants were not available.

A sea change came in 1995, in the early months of the administration of President Ernesto Zedillo. The devastating aftermath of the peso crisis combined with the frustrations of the previous few years and pushed the government into a more radical structural change than it had previously contemplated.

A legal reform permitted private companies – foreign as well as domestic – to compete for the distribution and transportation of natural gas.

An energy regulatory commission was set up to watch over the process of awarding concessions and ensure that Pemex, still the only primary supplier for most of Mexico, charged its new customers fair prices.

In addition, new environmental guidelines obliged Mexico's power stations to shift from using fuel oil to natural gas from 1998 - a move expected to bring about a massive increase in demand.

Now, some 30 months later, the situation has moved less than some would have hoped, but hopes are high of future progress. Two mid-size distribution concessions have been granted in the north of the country, along with other, smaller projects. Opening up gas transportation to the private sector has permitted the two private power generating schemes, Merida 3 and Samalayuca, to go ahead.

"They have made a relatively slow start," says Mr Rafael Quijano, director of Latin America for Petroleum Finance International, an oil and gas consulting group. "But at least it is a start. And the pace is picking up."

Indeed, Dr Hector Olea, the head of the Energy Regulatory Commission, argues the cautious pace is a distinct advantage. "You have to do things separately and in sequence, so as to minimise political problems," he says, referring to the step-by-step process of political change and legal and institution reform.

"You also need a clear commitment from the top of the political system, as we have received."

Such a commitment was all the more important in Mexico, where the energy sector has been highly politicised ever since the oil industry was nationalised in 1938. The cautious approach remains in effect: the initial projects, zones around the northern towns of Mexicali and Chihuahua, were chosen for their relative simplicity.

Mexicali, which will require investment of some $30m for the 30 year concession, exclusively uses gas from across the border. Chihuahua, which needs $32m, currently uses gas from Pemex, and the status of some of Pemex's pipelines had to be resolved before the concession could be granted. Both projects were won by a consortium between Próxima of Mexico and Enova and Pacific Enterprises of the US.

Now, however, the process moves closer to the centre of the country, where the use of natural gas is much less established than in the north. Domestic use is still dominated by liquid petroleum gas, which is not only often stored dangerously, but is resold in chaotic conditions which the Commission has yet to reform.

Although other projects are pending, the two most important upcoming concessions are the northern industrial city of Monterrey, where much of the country's industry is concentrated, and Mexico City itself, where perhaps $1bn of investment is needed. Both projects should be launched late this year, with the concession granted in 1998.

Most of the dozen or so Mexican and international companies that have already participated in the process will fight for the attractive Monterrey market. Mexico City, however, is a different process, and the Commission has yet to make some fundamental decisions about structuring the concession.

"In Mexico City, we are concerned about seismic activity, about pollution, about the archaeological remains under the ground. There are a lot of issues," says Mr John Peterson, Vice President at Pacific Enterprises International.

In addition, there are worries that Pemex may be torn between its responsibility to transport gas via existing routes and its role as a provider of other fuels.

But, as a welter of gas projects come up for auction, a once moribund sector now seems transformed.

BRAZIL • by Jonathan Wheatley

Alternatives to hydro power in pipeline

Economic recovery has put strains on traditional power supply sources

A spate of blackouts in south-eastern Brazil last month underlined the country's urgent need to find alternatives to its traditional dependence on hydro-electric power. Natural gas may provide the solution.

Gas-fired power stations supply a mere two to three per cent of Brazil's electricity, compared with 40 per cent in neighbouring Argentina and about 30 per cent in the US. Present consumption is 12m cubic metres a day, a figure the government hopes will rise to 85m cubic metres a day by 2005.

In the past, hydro-electric plants easily kept pace with the country's energy demands. But Brazil's economic recovery after the lost decade of the 1980s has strained the publicly-owned generating and distribution industries beyond their capacity to invest.

The federal and state governments are now preparing to sell their electricity assets, a process that will raise an estimated $40bn in the next three years and should give a much-needed boost to efficiency.

Meanwhile, a series of projects are in preparation to relieve the pressure on the traditional energy industry by bringing natural gas to Brazil's industrialised south east from domestic gas fields and from much bigger reserves in Bolivia and Argentina.

Ironically, in a country that has just begun Latin America's biggest privatisation push, the driving force behind the most ambitious gas project is Petrobrás, the federally-controlled petroleum group.

It has the biggest stake in a proposed 3,000 km pipeline that will transport an initial 8m cubic metres a day, rising later to 16m cubic metres, from Rio Grande in Bolivia via Sao Paulo to Porto Alegre, capital of Rio Grande do Sul, Brazil's southernmost state. Construction costs are estimated at $400m on the Bolivian side and $1.4bn in Brazil. Operation is scheduled to begin at the end of 1998.

Petrobrás holds 51 per cent of the Brazilian side. Four per cent is held by Brazilian investors and 25 per cent by BTB, a consortium formed by British Gas, Tenneco Gas of the US and BHP Petroleum of Australia.

A joint venture formed by YPFB, the Bolivian public petroleum group, and Enron of the US originally held 20 per cent. The ownership structure changed last year when Enron and Shell bought 50 per cent of YPFB's distribution arm. On the Bolivian side, the YPFB–Enron joint venture owns 85 per cent of the project; Petrobrás has 9 per cent; and BTB, 6 per cent.

Critics of the scheme say it is too ambitious and that it would make better economic sense if the pipeline were to stop in Sao Paulo. But while the project's partners insist it will be completed in full, two new proposals may force them to reconsider.

One, announced in March by a consortium including Mobil of the US and Japan's Marubeni Corporation , is to build a 3,100km pipeline from Salta in Argentina to Sao Paulo at a cost of $1.5bn, carrying up to 25m cubic metres of gas daily from 2001. The second proposal would supply the southern Brazilian states of Santa Catarina and Parana from offshore reserves.

"At first sight these schemes may seem to undermine the Bolivian pipeline but they could end up helping it," says Mr Pedro Krepel, director of the Sao Paulo Federation of Industry's infrastructure department.

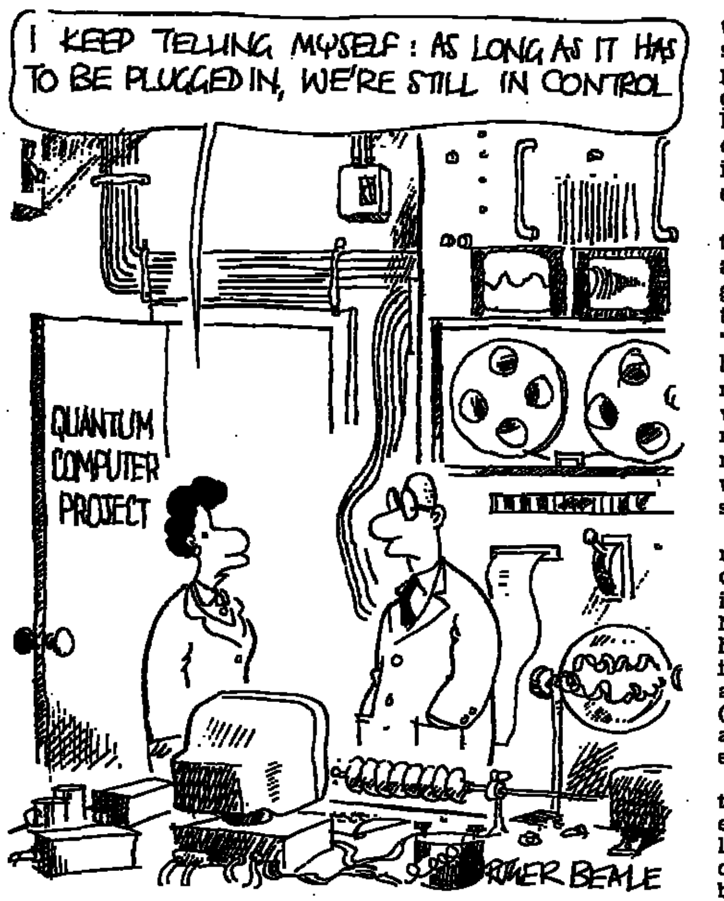
Mr Krepel argues that the alternative schemes would force the Bolivia pipeline to stop at Sao Paulo, saving on capital costs and making its gas cheaper.

"The idea of a pipeline all the way from Rio Grande to Porto Alegre is aesthetically pleasing but economically not very sensible," he says. "Brazil is preparing for ever greater integration into the regional and global economies, and it must look very carefully at energy costs if its industry is to be able to compete."

TECHNOLOGY

Contestants on parade

Bruce Dorminey examines three rival methods which could help computing take a quantum leap



It has been called a beauty contest in new physics. Three rival experimental methods are emerging as the most attractive contestants in a battle that could make the latest computers feel like an abacus.

None of the three are capable of cavorting with the crown just yet, but all hold potential, scientists believe, to help computing make a "quantum leap" – literally.

It is all about harnessing quantum mechanics for everyday computing. Just as quantum mechanics replaces classical mechanics as a theory for subatomic particles, incorporating the idea that the particles can also be regarded as waves, so quantum computing would replace classical computing.

In classical computing, bits of binary code make up the logic of everyday calculations. In quantum computing such bits become quantum – or qubits – and so can maintain two physical states simultaneously.

The power of a quantum computer would lie in the fact that its computational paths interfere (or interact), giving it the ability to perform complicated computations simultaneously, in contrast to classical computers which can compute only in parallel.

The three rival methods involve using ion traps, nuclear magnetic resonance (NMR) and cavity QED, or quantum electro dynamics.

The ion trap method is the most popular within the scientific community. Alternating voltage is used to keep a charged ion – an atom with one too many or one too few electrons – in a virtual subatomic straitjacket.

Using everything from aluminium foil to second-hand camera lenses, researchers at the University of Innsbruck have filled a ground-floor physics lab with two labyrinthine tabletop lasers whose focal point is a trap, about half the size of a thumbnail, for calcium ions.

Funded by the Austrian Science Foundation and the European Union, the group runs the experiment on an annual budget of just $165,000 (£101,861) with an aim of creating a quantum register or group of qubits capable of performing mathematical functions, complete with logic gates (or on-off switches) that can be encoded to build a small quantum computer.

The laser creates a pulse of varying durations which lifts the ion's electrons from their ground or low energy state to an excited state, creating the two states simultaneously and making a qubit. The researchers then encode an arbitrary numeric value of zero or one, giving the qubits a basis for computation.

Before they can compute, two or more ions which share the same value, or state, need to become entangled. Unfortunately, reading or measuring the entangled states disturbs the qubits. So, it is also hard to keep them coherent, as decoherence or total randomness can be brought on spontaneously or caused by an environmental disturbance. Either way, it ruins the computation.

Entanglement and coherence are also necessary if the ions will ever be able to function as logic gates, which would be the quantum computer's building blocks.

So far the Innsbruck team – experimental physicist Rainer Blatt and theoreticians Peter Zoller and Ignacio Cirac – have only been able to achieve classical calculations using two qubits, or encoded ions. But they hope to achieve a gate mechanism by the end of the year.

At the National Institute for Standards and Technology in Colorado, Dave Wineland, an experimental physicist, is doing similar ion trap work and has achieved a kind of basic logic gate using two contrasting states in a single ion, but has not yet done any computations.

Beyond gates, future developments may include optically linked blocks of 10 ions in a kind of quantum local area network. That would enable engineers to tackle the technology's miniaturisation, possibly by using lithography to put ion traps on chips that could be manipulated by tiny laser diodes. From there, the chips would eventually be installed into a quantum-equipped personal computer.

The second approach to quantum computing, NMR, would use a similar networking method to get around its own physical limitations. A resonator reads the "magnetic spin" of atomic nuclei by putting molecules in a magnetic field and bombarding them with radio waves. How they respond depends on the arrangement of their spins, and in this way spins can become encoded to serve as qubits.

Neil Gershenfeld, an experimental physicist at the Massachusetts Institute of Technology, is one of the prime proponents of NMR as an alternative. His team has already added one plus one in the laboratory and predicts the ability to factorise the number 15 (calculate 15 times 14 times 13 and so on down to one) by the end of the year.

But because the signal from the magnetic spin weakens for every qubit that is added, NMR is limited to 10 qubits per molecule, otherwise the signal or result becomes unreadable.

To factorise 15 requires a minimum of 24 ions with about 8,000 gate operations. The MIT group proposes overcoming the problem by using what Gershenfeld terms a "quantum cellular architecture" that would interact locally on polymers or crystals. It would then be scaled down to a desktop version that he hopes would make it widely accessible.

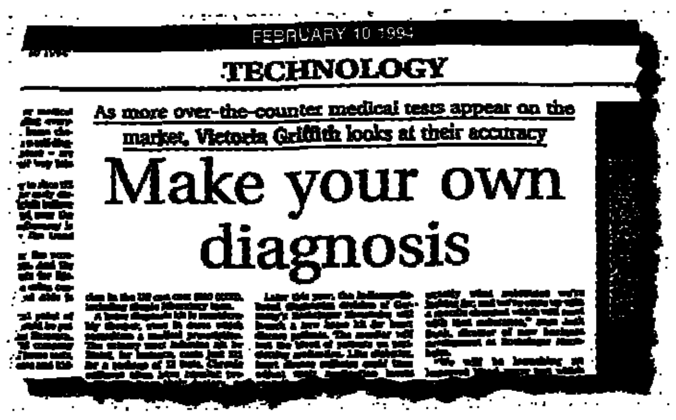
Given the tenuous state of the technology, Serge Haroche, a physicist at the Paris Ecole Normale Supérieure, is not sanguine about quantum computing's immediate prospects. So he and colleagues are focusing on ways to use quantum logic to explore what he terms the "quantum-classical boundary".

With cavity QED, the French group uses entangled atoms as qubits which communicate by picking up and dropping off photons on their way in and out of a microwave cavity. Their next step is to entangle three atoms for a simple logic gate.

A quantum computer of only 25 qubits could help resolve lingering questions regarding quantum physics in a way that until now has eluded researchers using classical computers. Even so, a really powerful quantum computer would need at least 1,000 qubits to reach a billion logical operations – no big deal by classical standards – and that is still a long way off.

Update · Home diagnostic tests

A move out of the doctor's office


FEBRUARY 10 1994
TECHNOLOGY
As more over-the-counter medical tests appear on the market, Victoria Griffith looks at their accuracy
Make your own diagnosis

THEN: In 1994, controversy was brewing over home tests for HIV, the virus which may lead to Aids, and defective genes just as the health industry was predicting a boom in over-the-counter kits. Home diagnosis was a bad idea for serious illnesses, said regulators, because patients needed on-the-spot counselling to cope with the bad news and explore their medical options. These reservations led many to believe home tests for HIV and cancer genes, in particular, would be a long time in coming.

NOW: Home HIV tests are now available to US consumers. Makers satisfied regulators' concerns by having users call a special telephone number to get their results. If the test is positive, they are transferred to a specialist who offers counselling on the telephone.

The over-the-counter HIV kit, approved in May last year, marked the move of home testing into the realm of more serious diseases. While diabetics were already testing themselves for insulin levels at home in 1994, the kits only monitored a pre-diagnosed illness. Now, Americans can buy over-the-counter tests to determine a number of serious conditions.

In January this year, the Food and Drug Administration approved home tests for the presence of illegal drugs in urine. "It's used mostly by parents who want to know if their child has used marijuana, heroin or other drugs," says Jacob Brown, president of Personal Health & Hygiene, a manufacturer of the tests.

The watchdog has also approved home tests for hidden blood in stools, a possible indication of colon cancer. With so many over-the-counter products coming on the market, home gene tests also look closer to market than they did just a few years ago.

"I think home diagnosis for cancer-causing genes is still a pretty shaky area, but it's always possible," says Carolyn Jones, director of *in vitro* diagnosis for the Health Industry Manufacturers' Association in Washington DC.

Driving home testing is Americans' desire to have more control over their medical care. Home testing is anonymous, and therein lies much of its appeal.

Tests conducted through physicians' offices, on the other hand, can fall into the wrong hands. Polemic has grown in recent years over the negative impact a bad gene test can have on someone's medical insurance coverage. Insurance companies have been known to refuse customers who have tested positive for breast cancer genes, for example.

"If you ask a doctor to test your child for illegal drug use, that's in their medical record," says Sunny Cloud, an Atlanta mother who sells home urine tests that detect the presence of substances such as cocaine and heroin. "Do it at home and it becomes a much more private issue."

Cost is another important selling point. Home kits often cost a small fraction of the price of a test by a doctor. From health officials' point of view, the tests are also appealing because they can lead to earlier diagnosis.

"Since Aids is an epidemic, it's of top concern that carriers know they have the disease as soon as possible," says Jones. "If home tests help make that happen – and they probably do, to some extent – that's positive."

Although the FDA frets about accuracy, the agency recognises that home monitoring can lead to better treatment of chronic illnesses. In March, the FDA said heart patients taking warfarin, a blood-thinning drug, could perform self-diagnosis for blood clots in order to adjust their dosage. The device, made by International Technidyne Corp of Edison, NJ, involves pricking a finger with a needle and running the sample through a small hand-held electronic device, which then displays the results on a screen.

Self-screening for blood sugar levels has long been known to improve treatment for diabetics. In 1993, the New England Journal of Medicine published a study revealing significant benefits to sufferers who constantly monitor their levels. Some credit such studies for helping to soften the FDA's attitude to home tests.

However, a number of questions remain about over-the-counter tests. Regulators fear some patients will fail to follow instructions, leading to inaccurate results. And even supporters fear that psychological counseling over the telephone will prove insufficient.

"Our service gives people the telephone numbers of specialists in their area," says Brown. "But people can have strange reactions when they hear bad news. It's something to keep a careful eye on."

Victoria Griffith

LAW

Bank services VAT exempt

EUROPEAN COURT

Electronic transaction services provided to banks and their customers by a computer centre could be exempt from value added tax, the European Court of Justice ruled last week.

The case arose out of a challenge by the Sparekassernes Datacenter to the Danish authorities' decision to levy VAT on its services. Sparekassernes is an association which provides electronic banking services to its members – mainly small Danish savings banks.

The Danish tax authorities ruled that certain services were exempt from VAT. A Danish VAT tribunal overturned that decision, and Sparekassernes applied for judicial review.

The Danish court considered the case turned on the interpretation of the VAT exemption for certain transactions in the Sixth VAT Directive and referred a questions to Luxembourg.

The national court asked first whether the directive exempted services provided to banks and their customers by a computer centre, where those services were executed, wholly or in part, by electronic means.

The Court noted the relevant provisions had to be interpreted restrictively, since they constituted exceptions to the principle that VAT must be levied on all services supplied for reward by a taxable person.

The Court said a literal interpretation of the relevant exemption was insufficient, and the context and structure of the directive had to be considered.

The Danish Ministry of Taxation argued it would be difficult to prevent fraud and tax evasion if the services provided by Sparekassernes were exempted. It also claimed such an exemption would distort competition as other companies offering the same services would not be exempted from VAT.

The Court rejected that argument. It pointed out that banks which provided such services in-house did not pay VAT on those services.

The applicability of the exemption depended on the nature of the service provided. The status of the entity which provided or received the service was irrelevant.

Denmark, the UK and the European Commission all argued that the services provided by Sparekassernes should not be exempted because they were electronic.

But the Court ruled it made no difference whether the services were provided manually, automatically or electronically.

On the other hand, if the service merely involved the provision of technical or electronic assistance to another party which itself executed the essential parts of the transactions listed in the exemption, that would fall outside the exemption's ambit.

The Danish ministry also argued that the exemptions could only apply where services were provided under a contract between the person liable to pay VAT and the final recipient, but not where the provider acted as a subcontractor.

But the Court said that did not take the services provided by Sparekassernes outside the VAT exemptions.

Turning to whether the exemption could apply where only part of a larger financial transaction was carried out by a service provider, the Court said to qualify for exemption, the services provided, as a whole, had to constitute a transaction listed in the directive. The fact that a particular service was necessary to complete an exemptible financial transaction was not sufficient to bring it within the category of exempted services.

C-2/95: Sparekassernes Datacenter v Skatteministeriet, ECJ 5CH, June 5 1997.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

New global chief at Sumitomo

Shunichi Okuyama, head of Sumitomo Bank's Europe, Middle East and Africa division, has moved back to Tokyo to take over as head of international operations for the entire bank.

He is taking over from Kensuke Hotta, who has moved up to become deputy president with responsibility for all domestic operations. Hotta's move followed the promotion of Toshio Morikawa from president to chairman, and of Yoshifumi Nishikawa from deputy president to president.

Okuyama has served 19 of his 31 years with Sumitomo in London, and was on his third tour of duty in the UK, where his son was born and his daughter went to university.

He has been busy with a restructuring of Sumitomo's regional operations, which has seen more decision-making decentralised from Tokyo to London, in line with what the bank had already done in New York.

But Okuyama will not be replaced in London. Instead, responsibility for the Europe region will now pass to Akira Kondoh, managing director of Sumitomo Bank's north American headquarters, who will remain based in New York.

George Graham, London.

Cesaratto appointed to key role at Nortel

Cesar Cesaratto has been appointed president of Northern Telecom's Enterprise Networks Europe following the retirement of Jacques Bérubé.

Cesaratto comes to the Canadian telecommunications equipment manufacturer from Matra Communications where he has been president and chief operating officer since the beginning of 1996. Matra Communications is a joint venture between Nortel and the Lagardère Group.

Italian-born Cesaratto, 50, will have responsibility for increasing Nortel's share of the European market and for raising brand awareness. He will remain on the board of Matra Communications in France and will have partial responsibility for Sixtel, a joint venture in Italy between Nortel and Olivetti.

John Roth, president and chief operating officer of Northern Telecom, said: "Cesar Cesaratto's appointment will further focus Nortel's growth objectives in Europe as well as strengthen our synergistic relationships with European joint ventures and partnerships."

Cesaratto emigrated to Canada in 1947 taking a first degree in electrical engineering at McGill University in 1970. He joined the research arm of Nortel the same year and has held a variety of senior posts in the company including vice-president, components and supply operations with responsibility for nine business units.

Alan Cane, London

Merrill Lynch promotes Dowley

Justin Dowley, who joined Merrill Lynch, the investment bank, last year from Deutsche Morgan Grenfell with his colleague Guy Dawson, has been promoted to co-head of joint head of mergers and acquisitions in Europe, the Middle East and Africa.

Dowley becomes joint head with Naomi Molson, who has been a mergers adviser with Merrill since 1995, following the recent move by Ed Annunziato, previously head of mergers and acquisitions to become co-head of investment banking.

Dowley has led Merrill's advisory business in the UK since joining the bank. His defection together with Dawson, who is now co-head of investment banking along with Annunziato, was instrumental in building Merrill's UK strength.

Dowley, 41, worked for 15 years with Morgan Grenfell. Molson, 39, spent eight years with Goldman Sachs before joining Merrill.

John Gapper, London

Sexwale to join JCI board

Tokyo Sexwale, the premier of South Africa's Gauteng province, has joined the migration of black politicians to the business sector.

From a raft of directorships on offer, the political head of the country's industrial heartland has accepted a seat on the board of JCI, the mining house controlled by Mzi Khumalo. Sexwale, 47, met Khumalo on Robben Island, the prison for political prisoners, where both men were serving time for anti-apartheid activities.

The appointment will bolster JCI's political credentials in its race against New Africa Investments, South Africa's biggest black company, for new mining opportunities. New Africa last year recruited Cyril Ramaphosa, a past president of the National Union of Mineworkers and former secretary-general of the ruling African National Congress, as deputy chairman.

Like Ramaphosa, Sexwale has turned to business after watching any prospect of a bigger political job turn sour. A charismatic figure with a strong popular following, he was once voted Gauteng's sexiest man by the predominantly white listeners of a local radio station.

His move to business, the timing of which is not yet clear, signals an end to his hopes of succeeding President Nelson Mandela, who will step down in 1999. That job is set to go to Thabo Mbeki, deputy president, whose rise to power is creating a new pool of former rivals eager for a home in the corporate world.

Mark Ashurst, Johannesburg

ON THE MOVE

■ Ian Gibson, managing director and chief executive of NISSAN MOTOR MANUFACTURING (UK) has also become managing director of the Japanese car maker's Barcelona plant in Spain. The new post is additional to his other posts with Nissan.

■ Craig Hodge has joined CASPIAN SECURITIES, the emerging markets boutique, as senior salesperson. Joseph Jeong as Asian sales trader, Marci Field as head of Asian sales trading, Shumin Huang as senior analyst for Greater China Research, Giles Chance as senior salesperson for Greater China, Lucio Soso as head of research, Gene Garfield as head of research and Khor Tze Cheak as construction and buildings analyst. Hodge joins from WI Carr, Jeong from Credit Suisse First Boston and Field from SBC Warburg where she was an associate director of Asian sales trading. Huang was previously at SBC Warburg and Chance was previously a consultant to Sloane Robinson.

■ PUTNAM INVESTMENTS has consolidated its domestic and international equity group as a single department under the leadership of senior managing director Tim Ferguson. In the new post, Ferguson will continue to oversee the international equity group as well the domestic equity group.

■ South Africa's BOND EXCHANGE has appointed Tom Lawless as its new chief executive from July 14. He is currently treasury manager of state-owned electricity concern Eskom. Lawless has been a member of the exchange's executive committee since 1993.

■ Viktor Tolmachov, 63, has been appointed chairman of Russia's leading cargo airline Volga-Dnepr. He had been technical director since 1991 and replaces Nikolai Cherkasov, who is retiring after seven years in the post. Tolmachov was chief designer of the Antonov An-124 freighter.

■ South African telecommunications utility, TELKOM has appointed Mac Geschwind from US-based SBC Communications as its new chief operating officer. At the same time , Telkom announced the appointment of Nor Hizam Hashim from Telekom Malaysia as its new group finance executive.

■ The board of Sydney Olympic Stadium owner-operator STADIUM AUSTRALIA MANAGEMENT has appointed Paul Isherwood as its new chairman. He is an existing member of the board, and replaces Peter Ritchie who has resigned.

■ Peter Carman, who previously served as a senior managing director at Putnam Investment Management, has joined CITICORP as its new chief investment officer. Carman also becomes chairman of Citibank Global Asset management and will oversee global investment management activities. Carman succeedes Neville Bowen, who will retire at the end of June.

■ Claus-Dietrich Lahrs has been appointed managing director of LOUIS VUITTON Deutschland and Loewe Deutschland. Prior to his new appointment, Lahrs was responsible for Cartier's marketing and retail sales divisions.

■ SOCIETE GENERALE has appointed James Paton as head of European fixed income sales. Based in London, Paton will be responsible for developing and expanding the product coverage and sales teams. He joins from Lehman Brothers.

■ James Downing has joined THE CHASE MANHATTAN CORPORATION as a managing director and head of mergers and acquisitions for Europe, Africa and Middle East from Lehman Brothers.

■ BA FUTURES, the exchange traded futures and brokerage arm of BankAmerica Corporation, has announced two senior appointments in Singapore and London. Melvin Barden, formerly general manager of BA Futures in Europe, Middle East and Africa for six years, becomes general manager of BA Futures in Asia. Tracey Bennett, who was previously BA Futures's sales manager in London, succeeds Barden.

■ CARR SHEPPARDS, the investment managers and independent financial advisers now owned by South Africa's Investec Bank, have recruited John Hayward as a consultant to develop their pensions business.

■ Peter Meinertzhagen, the chairman of ABN Amro Hoare Govett anf Hoare Govett Corporate Finance, has been appointed to the board of The LONDON STOCK EXCHANGE.

■ ELF AQUITAINE has announced that some senior management positions at its Lagos-based Elf Petroleum Nigeria have been re-jigged. Jean-Francois Gavalda becomes chairman of exploration and production unit Elf Nigeria. Gavalda, who is also the head of Elf Aquitaine's African region, replaces former chairman Frederic Isoard will retain his duties as head of hydrocarbons. Both men are based in Paris.

■ William Zuendt, one of the architects of WELLS FARGO'S $11-billion acquisition of First Interstate Bancorp plans to retire later this year.

■ ALUMINIUM COMPANY OF AMERICA has appointed Richard Kelson as chief financial officer and executive vice-president. He was formerly executive vice-president, environment, health and safety and general counsel. Kelson succeeds Jan Hommen who resigned from Alcoa earlier this year.

■ NIKKO EUROPE, the European investment banking arm of Nikko securities, has appointed Nicholas Morant as managing director of equity capital markets. He was previously a director for equity primary markets with NatWest Markets in London.

■ IBCA, the European rating agency, has appoinfed Richard Fox, 42, as senior economist in charge of Latin America. He is currently chief economist for Latin America and Eastern Europe at Standard Chartered Bank.

■ MANUGISTICS, the supply chain management software and services supplier, has appointed Stephen Edwards as its new vice-president for Europe.

■ TEXAS INSTRUMENTS has appointed Jean-Francois Fau, 42, director of its European Wireless Communications Business Unit. He was previously sales and marketing director of the Telecommunications Segment, European Semiconductor Group.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

COMPANY NOTICES

Engels-Hollandse Beleggings Trust N.V.

Hereby gives notice that it has received the following notification under the Listed Companies Disclosure Act:

Name	Percentage capital interest	of which indirect	of which potential	Percentage voting rights	of which indirect	of which potential
Fincon B.V	15.9%	-	-	15.9%	-	-

Buitenhof 65
2513 AH Den Haag

Wassenaar, 2 June 1997

CONTRACTS & TENDERS

On the instructions of HM Government acting through the Director of Government Communications Headquarters.

GOVERNMENT COMMUNICATIONS HEADQUARTERS

- A major Private Finance Initiative (PFI) project
- Serviced accommodation for the Government Communications Headquarters (GCHQ)
- Potential for collocation of staff and operations onto a single site

The aim is to provide modern serviced accommodation for GCHQ staff and systems, potentially to be based on a single site in the Cheltenham area. Principally this would involve either extensive redevelopment for GCHQ of one of the existing Cheltenham sites, or provision of a new site in the locality, and the movement of the site occupants and equipment between buildings and sites during this time. GCHQ currently owns approximately 177 acres in Cheltenham and there is potential for commercial redevelopment of any land released by the project.

The selected Private Sector Provider (PSP) would be expected to provide facilities management services such as building services, accommodation services, office and staff support services, and technical infrastructure services at GCHQ's site(s). The PSP is expected to offer innovative solutions and to accept and manage risks inherent in the delivery of the services and the redevelopment works. The PSP will also be expected to assist GCHQ with the re-engineering of some support services to facilitate efficient and economic working in the new accommodation.

Proposals are invited from companies or consortia satisfying specified UK nationality criteria for implementation and funding of new or refurbished accommodation for GCHQ.

Interested parties are requested to apply by 26 June for further information and an invitation to attend a briefing to be held in London on 4 July 1997.

The Project Director,
Government Communications Headquarters.
Room 7/19, GCHQ Behall,
Fiddlers Green Lane
Cheltenham, Glos. GL52 5AJ
Tel: 01242-573209 Fax: 01242-523580

Project Number: W11346

KLEINWORT BENSON Ltd — HERBERT SMITH
CAPITA — CHESTERTON plc

CRAIGAVON BOROUGH COUNCIL
SELECT LIST
ENERGY FROM WASTE PROJECT - FEASIBILITY STUDY

Applications are invited from competent and experienced Consultant Engineers who wish to be considered for inclusion on a Select List of Tenderers who will tender for carrying out feasibility study into a proposed energy from waste project.

This will involve full investigation and preparation of a suitable Business Plan for Energy from Waste in the Craigavon Borough Council area employing solid waste and biowaste as a fuel and including the development of a community heating scheme supplied from process waste heat together with electricity generation and distribution.

QUALIFICATIONS AND EXPERIENCE:

It will be necessary to demonstrate previous experience in this particular area of work and be familiar with the following associated activities:

(a) Electricity Generation including CHP and District Heating
(b) Transmission and distribution of electrical energy
(c) Energy and Economic studies
(d) Chemical and Environmental Engineering
(e) Engineering design and large scale build structural electrical and mechanical projects
(f) Transportation and related infrastructure
(g) Project Management of large scale multi-disciplined Contract Works

Applicants should include the following information:

1. Details of similar work carried out within the last three years to include Contract duration, value, names and telephone numbers of supervising consultants etc.
2. Full details of current Management Structure.
3. Approximate amount of gross turnover the past three trading years.
4. Details of Employers and Public Liability Insurance.
5. Evidence of adequate resources to comply with the Construction (Design and Management) Regulations (Northern Ireland) 1995.
6. Fair Employment status.

The Tenderers must, when selected, tender for all of the services.

The Tenders will be assessed and subsequently awarded based on the most economically advantageous submission and proven technical and commercial competence.

It is expected that the length of contract will be five months maximum from the date of award of the Tender.

Full tender brief and Contract Documents will be available on request from the Director of Environmental Services, Tel: -01762 3431199 Ext 265 at the address detailed below.

Tenders forwarded by post should be registered or recorded delivery. An official receipt should be obtained for each tender delivered by hand. Applications should be marked 'SELECT LIST ENERGY FROM WASTE FEASIBILITY STUDY' and arrive with the Chief Executive, Craigavon Borough Council, PO Box 66, Lakeview Road, Craigavon BT64 1AL, not later than 12 noon on Monday 23rd June 1997.

The Council is not obliged to invite tenders from any applicants or to accept the lowest or any tender.

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BUSINESSES FOR SALE

Clare Bellwood 0171 873 3234 — Fax 0171 873 3064 — Melanie Miles 0171 873 4874

REPEAT CALL FOR TENDERS FOR THE SALE OF 55,040 DMT GOLD BEARING PYRITE CONCENTRATE OF "CHEMICAL PRODUCTS AND FERTILIZERS CO S.A." OF ATHENS, GREECE

"ETHNIKI KEPHALEOU SA, Administration of Assets and Liabilities" of 9a Chryssospiliotissis St. Athens 10560, in its capacity as liquidator of "HELLENIC CHEMICAL PRODUCTS AND FERTILISERS COMPANY S.A." a company with its registered offices in Athens (20, Amalias Avenue, Athens 105 57), Greece, which is presently under liquidation according to the provisions of article 46a of L.1892/90, by virtue of Decisions No. 4299 and 7714/1992 of the Athens Court of Appeal

announces a repeat call for tenders

for the sale of 55,040 DMT gold bearing pyrite concentrate with a gold content of approx. 22.7 g.p.t.

Interested parties are hereby invited to submit binding offers, not later than Monday July 7th, 1997, 12.00 hours to the Athens Notary Public Mrs. Ioanna Gavriell - Anagnostalaki, 18 Fidiou Street, Athens Tel.: +30-1-38.19.728, fax: +30-1-38.25.191. These should be accompanied by a Letter of Guarantee issued in accordance with the sample Letter of Guarantee contained in the Offering Memorandum, by a bank legally operating in Greece, to remain valid until the adjudication, for the amount of DRS. TWENTY MILLION (20.000.000.-) Binding offers together with the Letters of Guarantee shall be submitted in sealed opaque envelopes.

Envelopes containing the binding offers shall be unsealed by the above mentioned Notary Public in her office, on Monday, July 7th, 1997, 14.00 hours.

The Auction shall take place in accordance with the provisions of article 46a of Law 1892/1990 (as supplemented by article 14 of Law 2000/91 and subsequently amended), the terms and conditions set forth herein and the "Terms and Conditions of Sale" contained in the Offering Memorandum.

Interested parties may obtain a copy of the Offering Memorandum from the Liquidator "ETHNIKI KEPHALEOU SA, ADMINISTRATION OF ASSETS AND LIABILITIES" 9a Chryssospiliotissis St, Athens 10561 Greece, Tel. +30-1-323.14.84-87, fax: +30-1-321.79.05 or the, Liquidator's agent Mr. Efstratios Michaelides, 20, Amalias Avenue, Athens 10557, Greece Tel.: +30-1-32.26.334, fax. +30-1-322.11.03.

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For further details contact the Joint Administrative Receivers: Scott Barnes and Bruce Mackay at Grant Thornton, Grant Thornton House, Melton Street, London NW1 2EP. Tel: 0171 728 2428. Fax: 0171 383 4077.

Internet: http://www.grant-thornton.co.uk

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For further information contact:
The Joint Administrative Receiver,
Tony Thompson, KPMG,
20 Farringdon Street, London EC4A 4PP.
Tel: 0171 311 3860. Fax: 0171 311 3607.
E-mail: tony.thompson@kpmg.co.uk

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For further information contact Lindsay Denney or Dian Wardle, Deloitte & Touche, 1 Woodborough Road, Nottingham NG1 3FG. Tel: 0115 950 0511. Fax: 0115 959 0979.

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ARTS

Moving pictures at the Tate

William Packer reviews the centenary rehang and looks forward to the millennium

The hard truth is that a collection such as the Tate's, with its responsibilities split between the historical and the contemporary, will always hold more than it can ever show at once, even with all the space and money in the world. And with a statutory duty to continue buying, both to extend the range and quality of the existing coverage, and monitor current development and activity, the problem will never go away. The popular *canard* that somehow the public is being cheated, with all its treasures lying forgotten in the cellars, is, however, mere ignorance.

The policy of an annual rehang of the permanent collection was begun some nine years ago when Nicholas Serota became director. The New Displays for this – the gallery's centenary – year have just been announced, if not quite fully hung. For the eighth consecutive year, the re-arrangement is sponsored by BP. Given the nature of the exercise, as one of fairly constant flux, what we celebrate here is a process rather than an event.

The arguments for and against this rolling policy are well-rehearsed, Key works always fall victim to the merry-go-round and can be badly missed. And after eight years might it not just be time to let one or two of them now find a settled spot; still centres in this turning world? With space so limited – roll on the millennium and the Bankside Tate – the conventional wisdom of modern curatorial practice, which apparently would give anything painted after 1900 a wall of its own if that were possible, does seem increasingly indulgent.

We move from Gallery Three, for example, full of the confident 18th century and any number of works by Reynolds and Zoffany, Gainsborough, Stubbs and dominated by Copley's magnificent "Death of Major Pearson", and on through Gallery Eight, no less clear for being stuffed with Constable and his contemporaries.

Then it is into the large Gallery Nine, hung floor to ceiling with an entertaining *schuss* through Victorian and Edwardian favourites – Burne-Jones's "King Cophetua and the Beggar Maid"; Farquharson's sheep in a Scottish blizzard; Furse's "Diana of the Uplands" with her hounds; Whistler's Miss Cicely Alexander in grey and green.

So far so good, but then, with the pre-Rapaelites behind us (Gallery 10) we are suddenly into Modern Art, and goodness, how things change. British or foreign or a mixture of both, it doesn't matter, but from Gallery 11, in rooms that are no smaller than the general run, we are lucky to get 10 pictures to the dozen.

That is not to say the displays in themselves are not well chosen and well hung, which brings us to the case for the defence.

The conventional curatorial solution was always to stick with what was thought the best in a fairly permanent hang, with the occasional special exhibition to flush out other things, to illuminate a particular theme and spring the odd surprise.

The idea of a constant turning-over of the entire collection as the principal and regular display, with the opportunities it afforded of constant reassessment, rediscovery, fresh comparison and cross-reference, was revolutionary enough in a conservative profession. It was certainly worth trying and on balance, at the Tate at least, bearing in mind the reservations cited, has proved a great success.

With modern and contemporary international art heading for Bankside in the millennium, and the Tate reverting to its first purpose as our National Gallery of British Art, there will no doubt be a return to a more permanent dispensation. We must hope that the lessons of the New Displays over these recent years, their sense of adventure and renewal, will not be too soon forgotten.

For they place the permanent collections back where they should be, at the centre of topical gallery-going interest: and they encourage the habit of regular visits to keep up to date.

Thus, for another month, Gallery Two holds Hogarth's mid-18th century London contemporaries, as various as Ramsay and Canaletto, to complement the special tercentenary display in Gallery E. Gallery 11 has *Brittania's Realm*, an intriguing anthology of British marine painting in the 19th century, from the Newlyn narrative of Bramley's "Hopeless Dawn", or Somerscales's sunlit barque under full sail off Valparaiso, to the painterly formalities of Steer and Whistler.

On the modern side, in Gallery 18 under the heading of "A Clear Vision", Freud and Spencer are hung with the German new-realist of the 1920s, Christian Schad. Next door, British neo-romanticism is given a thorough airing with Craxton, Minton, Ayrton, Cecil Collins, Paul Nash, Alan Reynolds and the young Francis Bacon. In Gallery 24, in *The Experience of Place*, the St Ives abstraction of Frost, Heron and Lanyon is given a broader context by the work of Sam Francis, Ivon Hitchens and Brice Marden. All most stimulating – and in a month or two it will be something else.

Centenary Displays: Tate Gallery, SW1, continuing through the year: sponsored by BP.

Theatre

Serious about the Bard

For non-Shakespearian reasons, the press night of *Henry V* at Shakespeare's Globe will long stay in the memory. During Act IV – not long after we had been looking up to admire the glowing azure of the mid-evening sky – lightning began to flash frequently, and thick torrents fell. The actors, protected by the canopy high above the stage, carried on. Some promenaders cheerfully produced umbrellas and huddled close to the stage. Others withdrew to shelter at the rear of the theatre. But so committed was the audience by that time that nothing scuppered the success of the evening. I have liked all three Shakespeare productions so far at this new/old theatre, and *Henry V* – directed by Richard Olivier, with the Globe's artistic director Mark Rylance in the title role – is the most winning of them all.

It is *Henry V* in Elizabethan dress: which works so well that one seldom notices. And it is *Henry V* with male actors as Mistress Quickly, Princess Katherine, Queen Isabel, and the gentlewoman Alice: which also works so well that the difference hardly matters. (Toby Cockerell's account of young Katherine's femininity is so striking, both funny and serious, that one would like to see him trying on other Shakespearian heroines for size.)

According to Richard Olivier, it is also *Henry V* as myth. This dimension eluded me. Certainly it was *Henry V* as melodramatic comedy: which is what the Globe seems best suited to. Though Rylance & Co. could have invited audiences to behave with the high-spirited seriousness of Albert Hall promenaders, they have instead encouraged them to behave as if these plays were Christmas pantomimes. How Friday night's audience enjoyed booing the French king! How well every Shakespearian joke worked in this setting! Audience and play grew only merrier as the evening continued.

This was the jolliest *Henry V* I have seen; but also the most lightweight. Shakespeare's Globe has still to show us that it can present Shakespearian performance of the highest level. That level, heaven knows, is rarely enough achieved: but Mark Rylance is one who has achieved it – most recently as Benedick in the West End *Much Ado*. He is the most variable of actors, and his Henry V shows neither the best nor the worst of him. It is wonderful to see, now and then, his gift for expressive stillness, and it is affecting to hear that gentle quiver within a seemingly calmly produced voice.

Mark Rylance as Henry V: can introspection work at the Globe?

Alastair Muir

His is a pensive, troubled Henry. But not an absorbing protagonist. Too low in energy, he has not discovered how to make the higher flights of Shakespearian thought encompass a Globe audience. Which, in the great "Upon the king" soliloquy, he certainly tried to do. Can introspection or philosophising work seriously today at the Globe? I hope so; but I wonder how.

And – this is also important for the Globe – Rylance is less consistently audible than he was last year in *Two Gentlemen of Verona*. Again, it should be he who should be setting the example in how to make quiet tones carry, and in drawing the audience into his own concentration. But he is tentative. Always an experimental actor, his very accent as Henry travels up and down the Pennines. And his voice – with its somewhat backward placement – now seems wrong for the open spaces of the Globe, as do those of several of his co-actors. One applauded John McEnery less for his acting as Archbishop of Canterbury and as Pistol than for his sheer vocal projection.

No doubt Rylance's reading would have been twice as successful, twice as poignant, in a conventional auditorium. But it is he who should be leading the way to forge an acting style to make the Globe a major stage for Shakespearian acting. Until he or his colleagues succeed, it may well become merely part Shakespeare theme park, part the Open Air Theatre of the South Bank, as loveable as Regent's Park – but of no higher consequence.

Alastair Macaulay

Shakespeare's Globe, SE1.

Pop/Antony Thorncroft

Talent will out

It sounded so appetising. The Gilbert & George of BritPop, the Pet Shop Boys, were going to take on the Damien Hirsts and Sarah Lucas's of BritArt head on, with 15 nights of performance pop which would put performance art in its place: somewhere east of Saffron Walden. It did not quite work out.

The essential irony was there in abundance, with the Boys, Neil Tennant and Chris Lowe, dressed like morticians, staring blankly at the audience with all the charisma of cold curry. The venue was right, with the Savoy Theatre recently restored to pristine kitschness; and the distracting, "what on earth is the point of that" silliness, so associated with the *avant-garde*, was there in overkill, with tedious videos by Sam Taylor Wood of some yuppie dinner party dominating the stage.

Yet somehow what should have been the smartest, quaintest event of the summer fell a little flat. Oddly it was the product that disappointed. Lowe, as frozen as a fish finger, looked fine at the keyboards in his back-stage cubicle, lit by myriad bulbs, but the pre-packaged sound was badly balanced and Tennant's cool lyrics, delivered with the usual disdainful sneer, were mainly lost.

When you found yourself taking more interest in the yawnie videos than in Tennant's songs of unsatisfactory relationships you knew something was not working. Gradually talent came out of the closet and, after the break, the music finally took control. At the end when Tennant, against type, became a pop star, singing directly to the fans, and leading with his guitar on standards like "West End Girls", the long awaited nirvana had been reached.

You then realised what the irritating party on screen was about: it was set to mirror the events on stage with the guests working themselves up to the all dancing finale. But too much thought had gone into the production of the show, and too many doubts were left in the content, notably how camp did Tennant want to make it. Certain songs, like the ebullient "Go West" and the touching "It's a sin" were well presented as powerful gay anthems. For the rest, such as the version of "Somewhere", Tennant just played the pop guru.

By the end the Pet Shop Boys had scored again and pop was revitalised. Whether the accessories, especially the dancer and Murray Lachlan Young as the sardonic supporting poet, are strictly necessary I'll leave to Tennant. But starting with post-modern poetry certainly gave the evening that feel of the 1960s, the heyday of performance art. Eat your heart out BritArt.

New regime at National Theatre announces populist programme

Trevor Nunn announced his first programme as artistic director of the Royal National Theatre yesterday, with the caveat that he saw his job appealing to the widest possible audience, "not just those with 10 'O' levels". Not surprisingly, he has sketched in a popular mix of old favourites and interesting rarities.

His reign opens at the Olivier on September 19 with a new version by Christopher Hampton of Ibsen's *An Enemy of the People*, starring Ian McKellen, the first London production of the play in decades. This is followed by Nunn's response to the National's recent Christmas success, *Wind in the Willows*: a revival of his version of Barrie's *Peter Pan*, also starring McKellen.

Ron Hutchinson returns to London with his version of Mikhail Bulgakov's *Flight*, about the aftermath of the Russian revolution which was banned in the playwright's life time. At the Lyttelton, the highlight is Noel Coward's *Private Lives* directed by Deborah Warner, who is not known for her comedic touch. This will be in repertoire with Arnold Wesker's *Chips with Everything*.

Nunn's favourite pastime is reading old plays, and years ago he uncovered Edward Ravenscroft's 1669 hit, *The London Cuckolds*. It opens on February 19, 1998, in a version adapted and directed by Terry Johnson.

The tiny Cottesloe is given over mainly to new writing, with premieres of plays by Michael Frayn, Sebastian Barry, Kevin Elyot and Frank McGuiness. A long-forgotten, never-performed play by Tennessee Williams, discovered by Vanessa Redgrave and set in a prison, opens on March 5.

Given his background, Nunn is not shrinking from musicals, which have provided the National with much needed profitable West End transfers in recent years (in particular *Carousel* and *Guys and Dolls*): he has secured the rights to *Oklahoma!* Nunn is also presenting a small scale, "mobile" version of Joan Littlewood's *Oh, What a Lovely War*, which will tour the UK.

Shakespeare is being held back to the summer of '98, when the rival RSC will be absent from its former London home at the Barbican. The planned productions include *Romeo & Juliet*, *Coriolanus* and *Troilus & Cressida*.

Aware of the priorities of the new government, Nunn stressed access and touring in the regions. He also said that since his arrival last November (although he does not officially take over from Richard Eyre until October 2) the management team has worked well enough to make the job of executive director, previously held by Genista McIntosh, unnecessary. This squashes rumours that McIntosh, who resigned as chief executive of the Royal Opera House Covent Garden after just four months, will be returning to the National.

A.T.

INTERNATIONAL

ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Koninklijk Concertgebouworkest: with conductor Wolfgang Sawallisch, viola-player Ken Hakii and cellist Godfried Hoogeveen in works by Brahms and Strauss; Jun 14

EXHIBITION
Nederlands Scheepvaartmuseum Tel: 31-20-5232311
● Maritime Masters, 1600-1800: exhibition featuring 100 drawings providing a varied image of shipping at the time of the Dutch Republic. The works reflect shipping's status as the principal pillar on which the country's economic and political power rested; to Jun 30

■ BARCELONA

EXHIBITION
Museu Picasso Tel: 34-3-3196310
● André Derain 1904-1912: display of 60 works by the French artist, concentrating on the years 1904-12, when Derain established a lasting friendship with Picasso, *the two artists becoming major* influences on each other's work; to Jun 29

■ BERLIN

DANCE
Staatsoper Unter den Linden Tel: 49-30-20354438
● Staatsopernballett: performs *Sechs Tänze* choreographed by Musial to music by Berg, *Maries Zimmer* choreographed by Delente to music by Wagner and *Marie, er und ich* choreographed by Uotinen to music by Pintscher; Jun 14

■ BIRMINGHAM

CONCERT
Symphony Hall Tel: 44-121-2002000
● City of Birmingham Symphony Ochestra: with conductor Paavo Järvi and the Prince of Wales Brass in works by Bernstein, Barber, Copland, Souza and Dvorak; Jun 13

■ COPENHAGEN

EXHIBITION
Nationalmuseet - The National Museum Tel: 45-33 13 44 11
● Nimrud and Nineveh Treasures from Assyria in the British Museum: including wall panels from palaces from the cities of ancient Mesoptamia, large decorated bronze bowls and a number of religous documents; to Sep 7

■ DRESDEN

OPERA
Sächsische Staatsoper Dresden Tel: 49-351-49110
● Le Nozze di Figaro: by Mozart. Conducted by Hans E. Zimmer. Soloists include Andreas Scheibner, Birgit Fandrey and Christiane Hossfeld; Jun 12

■ DUBLIN

OPERA
National Concert Hall Tel: 353-1-6711888
● The Gypsy Baron: by J.Strauss. Conducted by Proinnsias O'Duinn, performed by Opera Ireland and the RTE Concert Orhestra; from Jun 11 to Jun 15

■ HONG KONG

CONCERT
Concert Hall/HKCC Tel: 852-227342809
● Academy of St Martin in the Fields: with Sir Neville Marriner and cellist Julian Lloyd Webber perform works by Law Wing-fai, Elgar and Beethoven; Jun 11

■ LONDON

CONCERT
Wigmore Hall Tel: 44-171-9352141
● Angel Stankov: performance by the violinist, accompanied by violinist and viola-player Yosif Radionov and pianist Theodora Nestorova. The programme includes works by Giardini and Sarasate; Jun 13, 14

EXHIBITION
National Portrait Gallery Tel: 44-171-3060055
● *Clifford Coffin: The Varnished* Truth: exhibition of work by the Vogue photographer credited with the discovery of Audrey Hepburn. Coffin photographed many of his subjects at the outset of their careers and the display includes such renowned figures as Truman Capote, Arthur Miller, Gore Vidal, Lucien Freud, Richard Attenborough, Gloria Swanson, Ernest Hemingway and Tennessee Williams; from Jun 13 to Sep 28
Victoria & Albert Museum Tel: 44-171-9388500
● Zuloaga: Spanish Treasures from the Khalili Collection: display fo 40 works by the Spanish metalworker, who gained fame for embellishing metal objects with intricate designs in gold and silver inlay; to Jan 11

■ LOS ANGELES

EXHIBITION
Los Angeles County Museum of Art Tel: 1-213-857-6000
● China in Mexico's Cultural Heritage: exhibition focusing on Chinese works imported during the late 16th to early 18th century, a time of large-scale trade between Spain and the Orient via Mexico. The display featrues over thirty ceramic works from museum collections in Mexico, excavated works from shipwrecked Spanish galleons and archaeological finds from Mexico Citys Zocalo area; to Jun 15

■ MADRID

EXHIBITION
Museo Nacional Centro de Arte Reina Sofia Tel: 34-1-4675062
● Manuel Rivera: display of 59 paintings by the Spanish artist produced 1956-1994; to Jun 16

■ NEW YORK

DANCE
Union Square Theatre Tel: 1-212 239 6200
● Tap Dogs: choreographed by Dein Perry; Jun 13

EXHIBITION
Whitney Museum of American Art Tel: 1-212-570-3600
● Collection in Context: Rockwell Kent by Night: display of 40 works by the American artist dating from 1910 to 1940 and including paintings, drawings, prints and book illustrations. Kent's work explored the darker side of nature, expressing a particular fascination with the night sky, and he often used his paintings as political metaphors; from Jun 13 to Sep 28

■ PARIS

EXHIBITION
Musée Auguste Rodin Tel: 33-1 47 05 01 34
● Vers l'Age d'airan. Rodin en Belgique: exhibtion featuring 24 busts, 43 paintings and four portraits of friends of the French artist, covering the period during which he lived in Belgium (1871-77) and his relationship with Belgian artists and writers; to Jun 15

■ SAN FRANCISCO

CONCERT
Louise M. Davies Symphony Hall Tel: 1-415-864-6000
● San Francisco Symphony Orchestra: with condüctor Michael Tilson Thomas and the San Francisco Symphony Chorus, soprano Heidi Grant Murphy, mezzo-soprano Marietta Simpson, tenor John Aler and bass-baritone Richard Zeller in works by Mozart, Scelsi and Alon; Jun 12, 13, 14

■ STRASBOURG

CONCERT
Palais de la Musique et des Congrès Tel: 33-388 37 67 67
● Sinfonia Varsovia: with conductor Lord Yehudi Menuhin and the Frankfurter Singakademie; Jun 12

■ VIENNA

CONCERT
Musikverein Tel: 43-1-5058681
● Natalie Dessay: performance by the soprano, accompanied by the pianist Barbara Moser. The programme includes works by Mendelssohn, Pfitzner, Poulenc, Debussy and Strauss; Jun 12, 14

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COMMENT & ANALYSIS

Martin Wolf

A two-speed carriage

Recent events have highlighted the incompatible views between France and Germany, so the UK is right to be cautious on economic and monetary union

The European Union looks like one of those *cartoon* characters that continues running after going over a cliff. It may not know it is falling. But viewers do.

Last October, I argued that the UK should join economic and monetary union from the start. The argument rested on the propositions that Emu would happen and that it would work. Should it stay outside, the UK *risked* moving from being a semi-detached member of the EU to being an ex-member. All these propositions now seem doubtful. It is more questionable whether Emu will in fact start on time; it looks less workable than it did; and the UK now has less to lose *should* it decide not to join.

Two points shine out from the German chancellor's defeat by the Bundesbank and the French president's defeat by the French people. One is that the political clout of Emu's proponents has been weakened, above all in Germany. The second is that France and Germany have mutually incompatible ideas about economic policy. *Modern Germany is still* Ludwig Erhard's child; France remains Colbert's. Most Germans have little doubt of the value of markets; the French prime minister even calls them a threat to civilisation. Germans believe in stability-oriented policies; the French hanker after reflation.

The differences between the two countries are measurable. Without unification, the German general government fiscal balance *would have shown a surplus* of 1 per cent of gross domestic product last year. Its *ratio of public spending* to GDP would also have been 10 percentage points lower than in France. Yet France has rejected a government whose austerity consisted of trying to shave a percentage point or two off a ratio of public spending to GDP of 54 per cent.

During the course of the *campaign, Mr Lionel Jospin,* the new prime minister, said France should proceed to Emu *on four conditions:*

- The euro should not be overvalued against the dollar and the yen;
- The planned "stability pact" – agreed in Dublin last year in a form weaker than Germany wanted – should be replaced by a more expansionist version;
- The European central bank should be counterbalanced by a "European eco*nomic government*"; and
- Italy and Spain must join in the first wave.

The significance of these conditions is obscure. The Maastricht treaty allows the council of ministers, acting by a qualified majority, to "formulate general orientations for exchange rate policy . . . *without prejudice to* the primary objective of the European System of Central Banks to maintain price stability". In practice, Germany is likely to view any interference to ensure the euro is not "overvalued" as unacceptable.

Similarly, the implications *of French requests to alter* the stability pact are unclear. But Germany will look *askance at any effort to* weaken a discipline that it *already regards as feeble*. A European economic government would be acceptable to Germany if it were a step towards political union and based on a commitment to Europe-wide fiscal discipline. If its goal were Europe-wide Keynesianism, however, it would be anathema.

Insistence on Italy's membership will also run into resistance. Notwithstanding Italy's remarkable fiscal adjustment in recent years, *Germans find it difficult to* believe Rome has embraced the stability culture they aspire to.

Can such disagreements be resolved? One way would be time-honoured: the French government would discard all the promises it made in the campaign. This *would increase the likeli*hood of Emu, but undermine the credibility of French democracy – hardly a secure foundation on which to build the planned currency.

A fudge might be the alternative. But the German government's capacity to *sell such a solution has* been drastically reduced. This matters not only in *response to the French gov*ernment's specific demands, *but to interpretation of the* Maastricht treaty convergence criteria. The Bundesbank is now in a stronger position to insist that these must be applied strictly.

Economically, this may make little sense. Fulfilment of the 3 per cent target for the general government fiscal deficit is not strictly required by the treaty. Nor can it determine whether Emu subsequently works. The reality, however, is that the Bundesbank may insist. This must make a start in 1999, at least by Germany and France, less likely.

These difficulties affect whether Emu can start on time. But a still bigger issue is whether it will work thereafter. It is only possible to reconcile a single currency with many govern*ments if monetary policy* can be operated in isolation, or member states agree on what needs to be done, particularly on fiscal policy, or there is a dominant power. Unfortunately for Emu, there are two big countries that disagree on fiscal, monetary and exchange rate policies.

Right now, the French have a strong case. If a big *economy, such as Europe,* is embarked on substantial – and much needed – fiscal consolidation, there must be an offsetting change in the behaviour of the private sector. In practice, as Mr Christopher Allsopp and Mr David Vines pointed out at the end of last year, this requires sharply lower interest rates and a lower exchange rate.* This would require a more aggressive monetary loosening than the Bundesbank has been willing to contemplate.

But whether France is right is less important than the fact of disagreement itself. The aim of Emu is to strengthen European co-operation, but it is hard to believe this will be achieved by forcing countries to co-operate when they so profoundly disagree. It would *be like driving a chariot pulled* by a cart horse and a race horse.

Emu could still go ahead. The will is strong and the alternatives frightening. But nobody can now underestimate the difficulty of making it work after it starts.

This leaves the UK on the sidelines. Fortunately, with the new arrangements for the Bank of England, it would no longer be possible to complain of competitive devaluations by the UK. Again, with the government's decision to join the social chapter – albeit unwise – and its generally more pro-European stance, the costs of standing on the sidelines should be smaller than before.

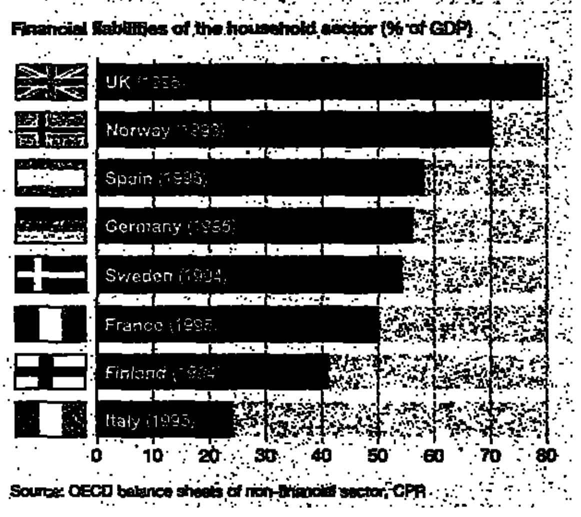
Also important is a point that emerges from a report *for the London-based Centre* for Economic Policy Research.** Because the UK economy is particularly sensitive to movements in short-term interest rates, the biggest impact of European monetary policy would be on the UK alone. If the UK's low-inflation policy works, this will change in time. But no British government could hope to sustain membership of an arrangement that destabilised the UK economy more than it did any other large member.

Nine months ago, there was a convergence of European views on economic policy, a general will towards economic reform, a plausible path towards Emu and the UK left dangling on the outside. Now the path looks rocky, the wills divergent and the UK a more credible participant. Emu may still go ahead. The UK would be wise to wait and see.

**Christopher Allsopp and David Vines, Fiscal Policy and Emu, National Institute Economic Review, 4, 1996; **The Ostrich and the Emu: Policy Choices facing the UK (London: Centre for Economic Policy Research, 1997).*

The heavy debt burden of UK households

Financial liabilities of the household sector (% of GDP)



Source: OECD balance sheets of non-financial sector, CPR

Will miracles never cease?

John Murray Brown says Ahern's election should not break Ireland's economic success

The Irish pound rose yesterday, suggesting that currency traders, at least, have few misgivings about a new government in Dublin.

The slim election victory of Mr Bertie Ahern suggests Ireland may be in for a period of uncertainty as the leader of Fianna Fail tries to form a workable administration. But when this week Mr Ahern meets Ms Mary Harney, leader of the centre-right Progressive Democrats, to thrash out a joint programme for government, one topic will provoke little disagreement: economic policy.

No single politician or party can claim credit for Ireland's economic success, which sees the country enjoying Swiss-style inflation and south-east Asian growth rates. Gross national product rose 7 per cent last year and is expected to increase at twice the rate of the European Union average over the next decade, according to the Economic and Social Research Institute, a Dublin think tank.

The "miracle" is the product of sound policies pursued by consecutive administrations since the mid-1980s. Some trace the success story even further back – to the mid-1950s when Ireland, which inherited little manufacturing infrastructure at independence from Britain, opened itself up to foreign investment. The low-tax foreign investment-friendly policies set in place in the post-war period are at last reaping benefits.

Ireland has, for example, become the favoured location for US software investment in Europe. Intel, the US computer chip company, has its European manufacturing headquarters outside Dublin. Foreign companies in Ireland now account for 75 per cent of manufactured exports, more than half the manufacturing output and 45 per cent of industrial employment.

Ireland's attractions as an investment location look likely to persist, with all parties committed to maintaining the current 10 per cent corporate tax regime.

Mr Ahern's Fianna Fail party, while it derives support from a wide range of interest groups from farmers to small business and public-sector workers, is pragmatic. Neither is there any external pressure to tinker with an economic model that has delivered such good results. There is a consensus across industry and labour to maintain fiscal prudence, and keep inflation low – largely in order to qualify for the European single currency.

Ireland's relationship with Europe, a central pillar of its economic success, is also likely to remain unchanged. Dublin has relied heavily on European largesse; payouts from Brussels accounted for up to 4 per cent of GNP in the early 1990s, although this has fallen to around 2 per cent as the economy has grown stronger.

Mr Ahern, an accountant and a union official by background, is an advocate of European economic and monetary union. After his own experience as finance minister during the currency crisis of 1992-93 when he was forced to devalue the punt, he has learned how quickly markets seize on any hint of indecisiveness. He is unlikely to tolerate the rather more Eurosceptic stance of the Progressive Democrats, which in their manifesto voiced concern about the impact on exporters of joining Emu without the UK, Ireland's largest trading partner.

Mr Ahern is also likely to continue the education reforms which have produced a higher proportion of science graduates than any member of the Organisation for Economic Co-operation and Development other than Japan.

The other major building block of economic success has been a three-year pay deal, a continental-style social pact negotiated last Christmas, and also certain to be honoured by Mr Ahern. The pact between management, farmers and unions, exchanges tax cuts for moderate wage demands. It has helped restrain inflation, boost Ireland's competitiveness and provide foreign companies with a clearer investment horizon.

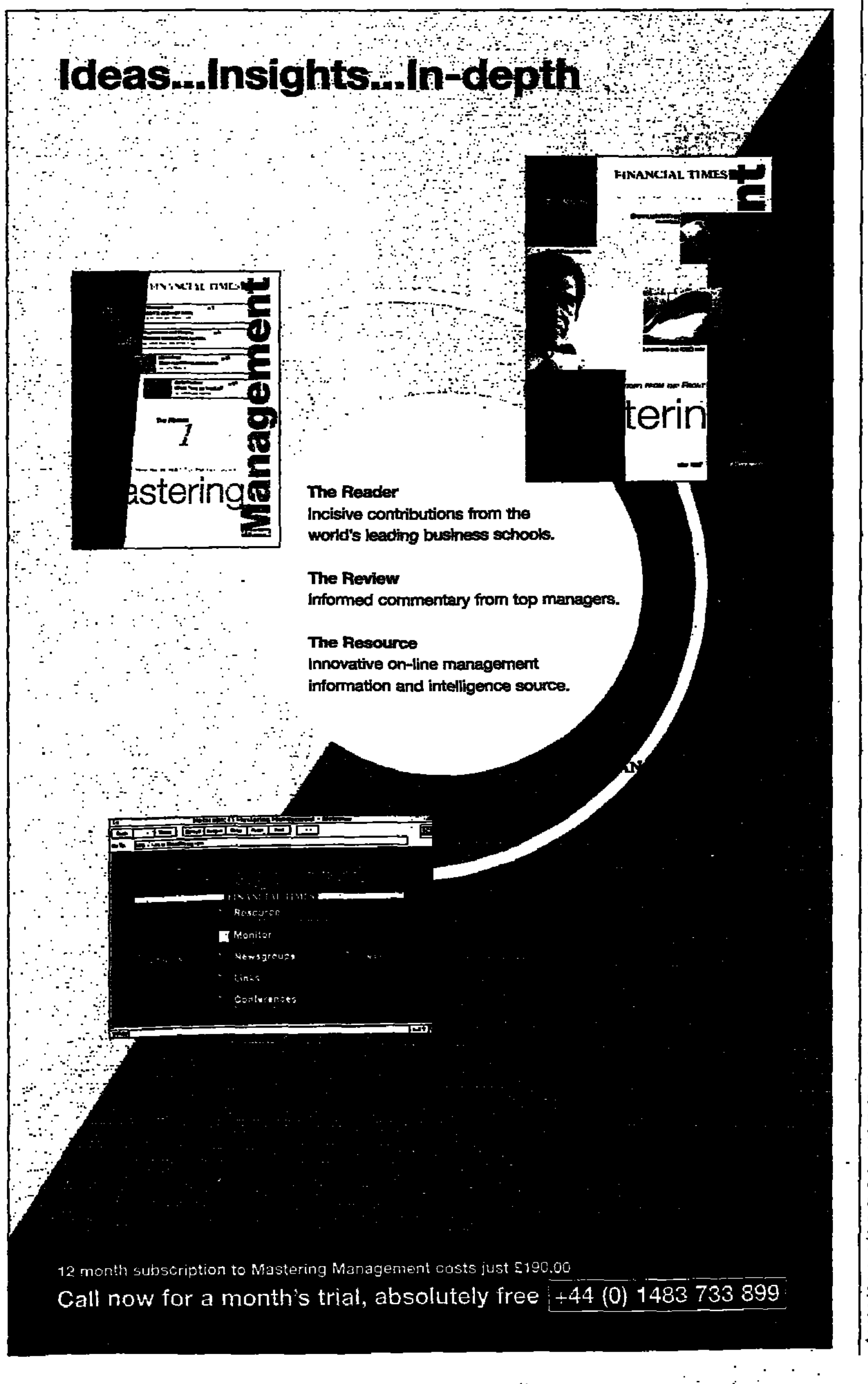
Most Irish companies are politically agnostic. If anything, Mr Ahern is perceived as tougher on public spending, an area where the departing left-of-centre coalition led by Fine Gael let targets slip.

Mr Ahern's proposed minority government could also prove *relatively stable* given that its expected partner, the Progressive Democrats, have only four parliamentary seats, says Mr Patrick Honohan, a Dublin-based economist. It was under a similar Fianna Fail minority government in 1987-89, that Mr Ray McSharry, later to become the architect of EU farm reform, put fiscal policy back on track, say Mr Ahern's advisers.

Policies pushed through by that government helped bring the budget deficit down from a wayward 14 per cent of GNP; today Ireland is one of the few EU states to meet the Maastricht criteria with a deficit of less than 1 per cent of GNP.

A poll of farmers before Friday's election found that opinion was split over which government they favoured. Ireland's farmers would be *the first to acknowledge that* it is Brussels, not Dublin, which is their ultimate paymaster. Subsidies and grants from the EU account for a staggering 40 per cent of farm incomes.

Given this and the fact that all political parties are broadly agreed on economic policy, it is little wonder that the financial markets are so sanguine about a change of government.



LETTERS TO THE EDITOR

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Economic conflict

From Dr John Wells.

Sir, A curiosum of the current UK policy debate is the compartmentalisation of thinking about fiscal and monetary policy. The Institute for Fiscal Studies concludes – purely on the basis of fiscal considerations – *that no fiscal tightening is* required in the forthcoming Budget; but without reference to conditions in the wider economy.

Meanwhile, the Bank of England, in respect of interest rates, concedes there currently exists a conflict between the need to curb domestic spending and that of correcting the overvalued pound. This conflict may be resolved via an autonomous weakening of the pound – or, then again, it may not.

This division of thinking *is* now institutionalised in the separation of responsibilities between the Treasury and *the Bank. But, the* economy is an interdependent system, and policy instruments impact on multiple objectives as well as interact one with the other.

Unless we learn how to walk and chew gum at the same time, we may be in for some nasty surprises!

John Wells,
faculty of economics,
University of Cambridge,
Cambridge, CB3 9DD

Avoid reading too much into Russia's shadow economy

From Mr Wolfram Schrettl.

Sir, As Russia's official economy continues to stagnate, people increasingly find hope and consolation in "spring weather", "fresh faces", American Depositary Receipts, eurobonds and now, inevitably, also in the booming shadow economy, as does Mr Michael Marrese ("Hope springs in the Russian economy", June 3).

Before pinning too much hope on the shadow economy, two points should be kept in mind: First, Poland, too, can boast a sizeable shadow economy. Nevertheless, *it is the performance of* the official economy alone which commands our respect. There is no need to invoke a hard-to-measure underground boom in order to come to a positive assess*ment of Poland's economic* record. One may be excused for wishing the same to be true for Russia.

Second, and more importantly, a structural aspect of the shadow economy tends to be forgotten. Namely, the shadow economy is likely to be biased toward the production of consumer goods and consumption-related services. "Shadow investment" *in fixed capital must* be regarded as an exception. It is true that this, too, is hard to prove. However, there are no claims that significant unregistered investment activity is taking place in Russia, nor are there the *usual anecdotes.*

Moreover, to the extent that tax evasion is the main reason for under-reporting of production, enterprises' under-reporting of investment activity would, by the same token, make little sense as it would only diminish possibilities of reducing the tax burden by way of depreciation allowances.

Thus, the arguably most catastrophic official figure on the Russian economy, i.e. the decline of investment in fixed capital to less than one-quarter of the 1990 level, also is likely to be the one which, in view of activities *in the shadow* economy, is least in need of upward revision.

This does *not* bode well, be it for the official, the shadow, or the "true economy".

Wolfram Schrettl,
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Germany

Industrial park is welcomed by China

From Tan Tee How.

Sir, James Harding, in his article on the China-Singapore Industrial Park in Suzhou ("Sino-Singaporean *industrial park idea starts to* lose some of its shine", May 27), cited President Jiang Zemin's advice to Prime Minister Goh Chok Tong of Singapore not to set up more such Singaporean parks in China as "the first official indication . . . that the project . . . had perhaps lost some of its shine".

Mr Harding misinterpreted Mr Jiang's comment. Mr Jiang told Mr Goh that every governor or mayor in China would accept without hesitation if Singapore were to offer to build an industrial park in their province or city. Hence his advice that Singapore concentrate on the Suzhou project and make it a success.

On May 29, China Daily, the largest circulating English daily and the Communist party's mouthpiece, carried a full-page supplement on the Suzhou Industrial Park headlined "Pace*setting zone a model of suc*cess in Singapore links". It said: "SIP stands as a pace-setter for Sino-foreign economic co-operation, which is of great importance for the *reform and opening up in* China."

Mr Harding describes some difficulties *facing the* Suzhou project. In such an ambitious project, problems are to be expected.

But with sincere co-operation and commitment by both the Chinese and Singaporean parties, and the full support of the two governments, the Suzhou project has made a good start.

We are confident that it will succeed.

Tan Tee How,
principal private secretary to the prime minister,
prime minister's office,
Singapore

Colourful enough without the innuendo

From Mr Harry Ball-Wilson.

Sir, The article by Antoin E. Murphy on John Law ("Flawed visionary who burst his own bubble", May 31/June 1), would seem himself to have produced quite a flawed report. My authority is *The History of An Honest Adventurer*, by H. Montgomery Hyde 1948, a historian of some standing, who has quite clearly a different opinion. France was ruled at the time by the Prince de Condi, who, with his equally disso*lute son, ruined the system.* Even so, France sold Louisiana for some $15m, hardly junk bonds.

The man's life was hectic enough for colourful newsworthy stories, without maligning him with so many innuendoes. John Law died impoverished, alone in Italy. The South Sea Bubble was a straightforward scam. Montgomery Hyde made a quite romantic detailed record of the reason for the duel with Edmund Wilson, and the subsequent escape from jail. I am sure if there had been any evidence of homosexuality, as an historian, he would have reported it. After *all he sacrificed his seat in* the UK parliament, for a Northern Irish constituency, because of his support of a relaxing bill on the subject.

If America had used Louisiana as it did Alaska, bought from the Tsar of Russia, it really would have been a new world, defying even Murphy's law. Alaskan oil revenues are shared, 80 per cent to *state* expenses and 20 per cent to the populous. Each adult Alaskan last year got $2,000, as interest. Isn't it time to dig up Henry George, in the positive progress to "Comfort the afflicted and afflict the comfortable with enlightenment"!

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COMMENT & ANALYSIS

FINANCIAL TIMES
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The price of risk

Central banks tend to be Jeremiahs when it comes to warning about risks in the banking systems they oversee. The Bank for International Settlements, the central bankers' central bank, is doubly inclined to gloom.

The BIS has now warned from its headquarters in Basle that banks and capital markets may not be pricing enough risk into their dealings. This time its warning is justified.

The central bankers line up persuasive evidence that ample liquidity and growing participation in the banking market by investment banks and institutional investors have tilted both pricing and other terms in favour of borrowers, both in emerging markets and the industrial world.

Average spreads on bank loans, Brady bonds and new bond issues for emerging markets have all narrowed over the last year. They would have narrowed even further had investors not been so happy with the creditworthiness of emerging market borrowers that they have willingly stretched average loan maturities from four years in 1991 to 10 years in 1996.

At the same time, net capital flows to Asia and Latin America all but doubled last year to $149.8bn, while investors became willing to consider bond issues denominated in ever more exotic currencies, such as the Croatian kuna.

Yet the potential for problems lies not just in emerging markets. The BIS warning is particularly apt in relation to the US, where bankers have become worryingly complacent that credit risks are a thing of the past. Spreads of US corporate bonds over the US Treasury benchmark have shown unambiguous declines, with riskier companies, rated double B or less, declining much further than single or double A companies.

In Europe, too, there has been a sharp decline in rates in some traditionally high-yielding bond markets. Investors have too easily believed that this is the result of convergence brought on by European monetary union. They should beware of the possibility that there may also be an increased and easily reversible appetite for risk in the market.

It is true that economic fundamentals remain generally sound, with quickening growth and low inflation. That, however, does not guarantee good short-term performance in the financial markets.

The question, therefore, is whether markets are adequately pricing these macroeconomic concerns into their assessment of market and credit risk when entering into investment transactions.

Clearly, bankers' confidence is not entirely due to irrational exuberance. If inflation is not dead, it is clearly much less of a threat than it was in the 1980s.

But financial markets are still suffering from an inflation hangover: used to the high real returns experienced in the early stages of disinflation, investors find today's rates unacceptably low and search for the high yields they crave in riskier niches of the market.

Extra risk must be adequately priced. When the interest rate gap between strong and weak borrowers narrows as much as it has, the Jeremiah of Basle is right to be concerned.

France in Africa

In January Mr Lionel Jospin, then leader of the opposition in France, drew a rebuke from President Jacques Chirac for daring to criticise attacks by French troops on rebel positions in the Central African Republic, in retaliation for the killing of French soldiers. But this Sunday, after another French soldier was killed in Brazzaville, capital of the formerly French Congo, prime minister Jospin quickly agreed with Mr Chirac to double French forces there.

Continuity has been the most striking feature of France's Africa policy ever since the days of de Gaulle. Successive French presidents have cultivated close personal relations with the leaders of former Belgian as well as former French colonies, in order to maintain a French sphere of influence, apparently unconcerned by the cost either to the French treasury or to the life and limb of the subject populations.

François Mitterrand appeared to signal a change when he came to power in 1981, but his liberal minister of co-operation, Mr Jean-Pierre Cot, who tried to promote democracy and human rights in the continent, did not last long. As before, the Elysée palace took control of Africa policy, with Mitterrand's son Jean-Christophe ("Papa m'a dit") playing a leading role.

In the last few years a series of events has demonstrated the bankruptcy of this policy: the devaluation of the CFA franc, the genocide committed by a French-backed regime in Rwanda, and most recently the fall of President Mobutu in Zaire. Mr Jospin and his party have rightly been to the fore in calling for a reappraisal, and the absorption of the co-operation ministry (a direct successor of the old ministry of colonies) into the foreign ministry in the new government has encouraged some African commentators to hope that a less paternalistic policy is at last going to emerge. Let us hope they are right.

Welfare reform

Mr Tony Blair, the UK prime minister, has been taking an interest in US welfare reforms. The changes there have certainly been bold, but Mr Blair should be cautious about importing them.

American reforms show that it is possible to think the unthinkable (curbing assistance for legal immigrants might better be described as unspeakable). The 1996 welfare bill aimed to reduce welfare participation, and to promote self-sufficiency. It replaced the federal guarantee of support for needy families with block grants to individual states. Welfare payments with federal funds were limited to two years in one stint, and five years over a lifetime. Beyond this, and within certain parameters, discretion was handed to the states.

In both countries, single-parent families (which account for about a third of all children) have attracted particular attention. UK benefits for single parents cost £10bn per year, the equivalent of almost five pence on income tax. And Mr Blair appears to think this is too much.

It is not clear yet which US states will be most successful in curbing such outlays. The national welfare count dropped from 5m in 1994 to just over 4m in 1997. But with strong economic growth encouraging people to re-enter the labour market, it is hard to judge the effects of reform. Added to this, the block grants were set in a year when welfare expenditure was especially high. The real lessons for the UK will be seen when the economy slows down.

There are some features of US reform which Mr Blair could not imitate. The first is devolution of welfare to the states. He must take central responsibility for a coherent national strategy. Second, the British public would not accept that the problem of moral hazard and work disincentives should be solved by restricting the safety net as ruthlessly as in the US. Mr Blair has promised to "empower" rather than to punish, and must maintain basic income support.

Mr Blair should remember that tough measures are only part of the US story. Many states have introduced imaginative schemes to help people move into work. These include counselling and childcare assistance, help with initial expenses when re-entering the labour market, benefit carry-overs, and help with work clothes and transportation costs. And curbs on out-of-work benefits have been combined with increased in-work benefits, making employment a better option for those with low earnings potential. Helping people back to work, and support for the working poor should be priorities.

Mr Blair wants to bring the "workless class" back into the mainstream. To do so he must make work attractive while meeting genuine need. US reforms provide many pointers but no simple solutions.

Tigers fill up their tanks

South-east Asia is expected to play a big part in the growth of the global car industry as incomes surge, says **Haig Simonian**

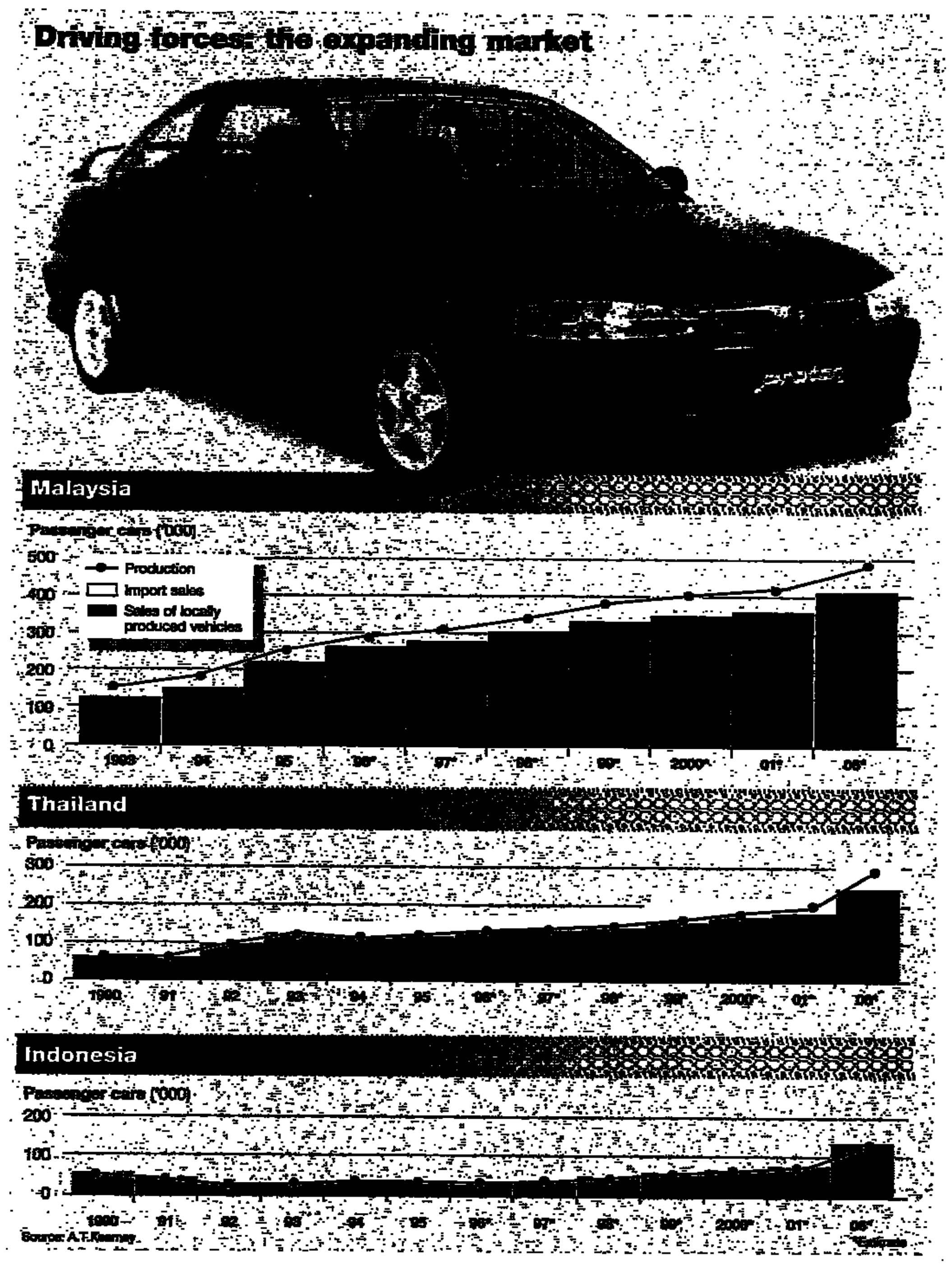
One thing unites Bangkok, Jakarta and Kuala Lumpur more than their skyscrapers or ambitions to count among the 21st century's industrial powerhouses. All three cities suffer from horrendous traffic jams as too many cars cram into too few streets.

Yet the governments of Thailand, Indonesia and Malaysia would all like to see many more cars on the road in their race to industrialise. The world's carmakers would love to help them: for motor manufacturers, south-east Asia holds much the same promise as South America or eastern Europe, the industry's two other boom regions.

"It is clear the future growth potential in the world auto industry is going to be in the Asia-Pacific region," says Mr Don Sullivan, the regional head for General Motors of the US. "And I expect south-east Asia will contribute a large part of that growth."

The reason for such enthusiasm is that, as in South America and eastern Europe, vibrant growth in south-east Asia has boosted private incomes. The difference between the regions is that Malaysia and Indonesia – but not Thailand – are pursuing policies aimed at nurturing "national" carmakers. Their approach, however, flies in the face of the trend towards more liberal international trade and is coming under increasing pressure.

The Malaysian economy has grown by about 8 per cent a year for almost the past decade. Indonesia's has expanded about as fast: annual growth in Thailand even reached double-digits between 1988 and 1990. That has pushed Malaysia's gross domestic product per head to US$4,255 last year from $1,722 a decade ago. In the same period, per capita GDP in Thailand climbed to $2,984 from $819 and to $1,118 from $483 in Indonesia.



Greater wealth has spurred car ownership. Sales in Malaysia climbed to 276,000 last year from 47,000 a decade earlier. An 8 per cent rise is expected this year. "We have learned to forecast conservatively. 1998 looks good," says Mr Francis Pereira, executive secretary of the Malaysian Motor Traders' Association.

"Vehicle sales should reach 525,000 by the end of the decade and 800,000 by 2005," says Mr Herman Latif, chairman of Indonesia's Association of Automotive Industries. Vehicle registrations soared to 325,000 last year from 172,000 in 1992. In Thailand, they climbed by 3 per cent to 589,000 last year from 1995.

Thailand and Indonesia hold great potential because of their large size and populations. Thailand has 60m people and Indonesia 200m. Although Malaysia is a minnow with 20m, its higher incomes offer more immediate returns. And demand for cars should rise in all three countries because of ambitious road-building programmes.

Thailand has followed Brazil and Poland in opening up to foreign carmakers – principally Japanese. Its openness has netted big investments. Leading carmakers have been attracted by low wages and fixed costs as well as potential as a regional export base. GM is spending $750m to make up to 150,000 cars a year for local and foreign sale. Ford of the US is building a $472m plant for pick-up trucks – much favoured by Thais – with Mazda, the Japanese carmaker it controls. Toyota and Honda, two other Japanese brands, are spending $460m to develop Thailand as the hub for simplified "Asian" cars. Meanwhile, Mitsubishi and Isuzu are expanding in pick-ups.

"Thailand has attracted our spending with a big growing market and consistent and transparent investment policies," says Mr Kenneth Brown of Ford.

In Malaysia, on the other hand, taxes and tariffs almost quadruple the price of an imported car. Even models assembled locally from foreign kits face levies of up to 112 per cent. In Indonesia, where pricing is distorted by the large market for cars derived from light commercial vehicles (which attract less tax), mark-ups can more than triple the price of a fully built-up import and double the cost of a locally-assembled vehicle.

Both countries use such methods to nurture "national" brands. A 1.3 litre Wira saloon built by Proton, Malaysia's leading "national" car company established in 1985, costs less than M$39,000 (US$£15,600). That is M$15,000-M$20,000 cheaper than a locally-assembled 1.3 litre Toyota Corolla and far below the cost of a fully built-up import. A diminutive Kancil, made by Perodua, the second "national" brand, created in 1991, enjoys a similar advantage.

Such favouritism has allowed the "national" brands to carve out far larger slices of the market than their lacklustre models – usually rebadged Japanese derivates – might suggest likely. Proton accounted for almost three-quarters of Malaysia's new car sales in 1993 – the brand's peak year for market share. The only reason for its decline to 64 per cent last year was the arrival of Perodua. Together, the two "national" brands accounted for more than four car sales out of five last year.

A similar, if more complicated, situation exists in Indonesia. Timor, the "national" brand created in February 1996, can sell cars virtually free of the country's otherwise swingeing taxes and tariffs. That has allowed Timor's confusingly-named Timor saloon, launched last October, to make big inroads into the market, in spite of being handicapped by a limited dealer network and an outdated product.

A 1.5 litre Timor costs about half the price of a similar locally-assembled car. Such undercutting enabled the brand to take 23 per cent of the passenger car market in its first six months. "I don't see why we can't match the 70 per cent Proton has in its home market," says Mr Soemitro Soerachmad, chairman of Timor Distributor Nasional, the company's retailing arm.

While the autarchic Malaysian and Indonesian policies have deterred foreign carmakers, they have not dimmed their ambitions to share in the region's expected growth. So far, foreign carmakers and governments have limited themselves to sabre-rattling to encourage what most see as an inevitable, if halting, reduction of taxes and tariffs as regional trade is gradually liberalised.

Indonesia's measures in favour of Timor – controlled by Mr Hutomo Mandala Putra, President Suharto's youngest son – have been the focus for criticism. Malaysia has largely escaped attack, as its legislation pre-dates the tariff-cutting commitments made ahead of the creation of the World Trade Organisation.

Last year, Ford postponed indefinitely plans for a joint venture in Indonesia and GM warned it would not expand its $110m joint venture unless Jakarta reconsidered its policy. Japanese carmakers and their local Indonesian partners have issued similar, if less strident, threats.

The dispute has since deepened. On April 30, the Japanese government called for a panel to be set up to investigate whether the "national" car infringed WTO rules. A month later, the European Union followed suit.

Although the Indonesian government's rhetoric has been uncompromising, its actions have been contradictory. Last June, Jakarta passed a law offering any carmaker the same exemption from luxury sales tax as Timor, provided it achieved 60 per cent local content by the end of 1999.

The concession coincided, however, with authorisation for Timor to import 45,000 cars from Kia Motors of South Korea, its technological mentor, free of tariffs because of delays to its assembly plant. Critics argued that, while other local assemblers would qualify for the tax break only once they reached 60 per cent, Timor was being offered the same benefit before building a single vehicle.

The government last month encouraged reluctant banks to participate in a $690m loan to finance Timor's expansion. It has since been pressing state officials and companies to buy Timors rather than other brands.

The reason foreign carmakers and their governments have not reacted more aggressively is their underlying confidence that Indonesia and Malaysia are buying time before the pendulum swings towards liberalisation.

Last year, the Association of South-east Asian Nations (Asean), which includes Malaysia, Indonesia and Thailand, agreed virtually to eliminate tariffs on all goods with a 40 per cent local content by 2003. That will allow cars built in Thailand to compete freely in Malaysia and Indonesia. The Malaysians and Indonesians may resort to non-tariff barriers to delay the process. The Malaysian government, for example, determines car prices, while the Indonesian authorities effectively nominate the sole agents for a brand. The trend, however, is clear.

The impact of liberalisation has concentrated minds among the "national" manufacturers. Proton, Perodua and Timor know they cannot rely on their outdated models to maintain sales once their price advantage goes.

"We know the clock is ticking. But I have time to prepare," says Tengku Mahaleel Tengku Ariff, Proton's chief executive. "If liberalisation is delayed beyond 2003, we have a breather, but we're not assuming that," says Datuk Saleh Sulong, chairman of the DRB-Hicom group which controls Proton.

Last year, the company outbid Daewoo of South Korea to buy Lotus of the UK. The attraction was not Lotus's loss-making sports cars, but its much bigger automotive engineering consultancy. Days after the £51m acquisition, the Malaysian company gave Lotus the green light for a new £7m prototype development centre for future Protons.

Perodua and Timor have not been so far-sighted. The longer they tarry, the greater should be the rewards for the foreign car companies once south-east Asia's protected markets are prized open, even if that does not happen in a hurry.

· OBSERVER ·

Emu finds an alloy

■ At last, some good news on European monetary union: EU finance ministers have sorted out the ticklish problem of what the coins should be made of.

This follows a long campaign by the Swedes to ban nickel, which they say induces allergies among teenagers. Their favoured replacement is an alloy called Nordic Gold, which contains lots of copper but no gold.

On Sunday night, ministers agreed in principle that only the one and two euro coins – around 8 per cent of the total coins in circulation if the currency arrives on schedule in 2002 – would contain nickel, which apparently makes coins harder to counterfeit. The 10, 20 and 50 cent pieces will be made of Nordic Gold and the smallest change – one, two and five cents – of other nickel-free alloys.

The Swedes were so delighted by this rare victory that one representative declared with a straight face that the use of Nordic Gold would bolster efforts to persuade the public to support Emu. Everyone else was too polite to point out that, just a few days earlier, the Social Democratic government had ruled out joining Emu in 1999 on political grounds.

In another sign of goodwill, ministers agreed to a design known as the "Spanish flower" for the 20 cent coins, giving them a lumpy feeling to help the blind feel their way round the new currency. Nordic Gold and Spanish flowers. The north-south axis rules in Europe, OK?

Murray heads off

■ Simon Murray, Deutsche Bank's swashbuckling executive chairman for Asia-Pacific, is leaving at the end of the year to try his hand at fund management. Murray, a trim 57, says his three years at Deutsche has been "terrific," but reckons the direct investment game in Asia will offer still more excitement. Even so, he's going to retain links with Germany's biggest bank, since it will be a backer of his fund, aimed at investing in capital-hungry companies not yet ready for the stock market.

It all seems a long way from his days as a brash lad of 19 when he enlisted in the French foreign legion. One of the more unpalatable episodes of his five-year stint was having to carry the heads of two Arab terrorists in a sack so they could be identified by officers. There are endless anecdotes – and Murray admits he's been dining off them for 30 years.

For the time being, he's leaving the derring-do to his wife Jennifer, who's piloting a helicopter around the world in aid of charity. Observer might be wrong, but it's hard to see fund management giving Murray the same sort of lift.

Chinese plums

■ A new twist to the saga of China's top foreign ministry appointment in Hong Kong after the looming handover. While the Hong Kong establishment was pleasantly surprised by last week's appointment to the plum post of Ma Yuzhen, Beijing's affable former ambassador to Britain, it seems the previous front-runner may end up in the territory after all.

Chinese diplomats are discreetly putting it about that Jiang Enzhu, another one-time ambassador to the UK, will be selected to head the New China News Agency, hitherto Beijing's *de facto* embassy in the territory.

The big question will then be whether Jiang, who in contrast to Ma, is known for his wooden style and slavish adherence to the party line, will actually rank higher than his rival. While the foreign ministry will take charge of high profile international business, the news agency is expected to keep tabs on Hong Kong's relations with the mainland. This would give it an important political function, since one of China's main worries is that its provinces will be contaminated by Hong Kong politics.

For all his cool demeanour, Jiang presided over Sino-British relations at a time when they were on an upswing in 1995. Ma may have been almost a cult figure with British business, but his tenure came when relations were at a low ebb. With both now expected to end up in the territory, who knows which mood will predominate?

Trading standards

■ There's some confusion in the US about trade policy, judging by a survey for the Women in International Trade lobby group. How else to explain that 67 per cent think the US should link trade deals to issues such as labour, human rights and the environment, while 60 per cent think such an approach won't work? Maybe it's something to do with where they get their information – just 5 per cent said the media was a font of reliable information on trade.

The idea that the car market is being overrun by Japanese imports may also have got out of hand. Those surveyed believed, on average, that 47 per cent of all cars sold in the US were made in Japan: the Department of Commerce says it was 11.4 per cent last time it looked.

Financial Times

100 years ago

Competition From Belgium
The Belgians seem to be running us very close in the iron trade in different parts of the world. The contract for the waterworks at San Juan (Porto Rico) with an English company having lapsed some time ago, the municipality solicited tenders for the material necessary for commencing the works under the supervision of the city architect. Three bids were made, one representing English manufacturers, another representing Scotch and American interests, and a third a Belgian manufactory. The last named was the successful competitor, and our Consul states that a drawback to the English tender was that in it the metric dimensions were substituted by English sizes. The last point is a type of what is complained of everywhere – that in tenders and invoices we do not adapt ourselves to the requirements of foreign customers.

50 years ago

Trading With Japan
Tokyo, 10th June. General MacArthur, speaking on the War Department announcement that private trade can be resumed on 15th August with Japan, stated to-day that it was "a sound step but only a partial one".

FINANCIAL TIMES
Tuesday June 10 1997

Liberalised markets 'threaten stability of payment systems'

By Wolfgang Münchau in Basle

The trend for liberalised financial markets is becoming a serious threat to the stability of global payment systems, the Bank for International Settlements warned yesterday.

The BIS, the umbrella organisation of the world's central banks, said in its 1996 annual report, published yesterday, that "familiar shortcomings observed in liberalised banking markets" caused greater concern than the spread of derivative instruments.

"While we have not yet experienced the economic losses that might be associated with a major failure in payment systems, which now routinely process several trillion dollars' worth of payments a day, a few close calls in recent decades were wake-up calls as well," it said.

"Violent asset price swings, generated by excessive credit expansion, often, but not always, accompanied by generalised inflationary pressures and capital inflows, have been a major source of recent turbulence.

"Weak governance of financial institutions, both internal and external, has also been a common problem."

The BIS was particularly concerned about the ability of the financial sector to respond to a possible downturn in asset prices.

The Japanese Big Bang in 1996, the erosion of US restrictions separating commercial and investment banking and preparations by European financial institutions for European monetary union "all imply that competitive pressures will intensify further and that financial restructuring is far from over".

The bank suggested that even a small tightening of US monetary policy could have a severe effect on financial markets.

It said the greatest risks to the world economy were related to "irrational exuberance" in financial markets, structural reform in European labour markets and possible market turbulence before economic and monetary union.

The cautious tone was reflected in the annual meeting yesterday, attended by about 100 central bank governors.

The BIS acknowledged that the prospect for medium-term economic growth in the world economy remained favourable, an assessment that is also shared by other international institutions, notably the International Monetary Fund.

But the BIS's overall outlook is markedly more cautious: "Just as it would be premature to declare inflation dead, it would also be unwise to assume that sound fundamentals guarantee good performance in the near term."

Perhaps the most pressing concern is that inflationary pressure in the US may soon prove more difficult to tame than expected and the expansion may end abruptly.

Even a "soft landing" which demanded a series of tightening measures might have significant implications for equity prices and other more risky investments, the BIS said in its report.

Mr Andrew Crockett, general manager of the BIS, said: "The fact that asset prices are on the increase, when inflation is low, is something to reflect on."

Editorial comment, Page 19
World stocks, Page 40

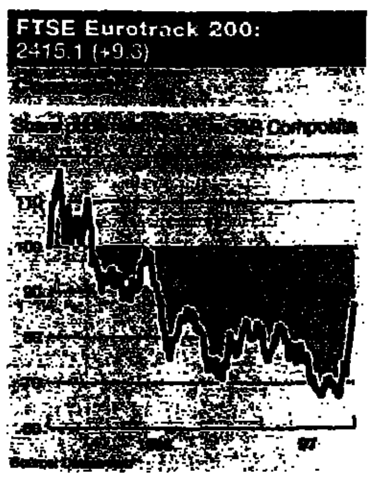
THE LEX COLUMN

Microsoft's TV dinner

Nobody can doubt Mr Bill Gates is deadly serious about extending his empire from computers to television. Yesterday's $1bn investment in Comcast, a US cable TV company, comes on the heels of Microsoft's purchase of WebTV, which makes devices allowing TVs to access the internet.

Some pundits portray the interactive future either as a battle to the death between the PC and TV or as one where the two devices merge. Mr Gates' vision is more subtle and realistic: a future in which different gadgets co-exist, but share content, software and infrastructure. Microsoft clearly intends to be in the business of supplying this software and content.

Why, though, does Mr Gates want to be in infrastructure too? Clearly, broadband links are needed to make the most of this interactive future. But even if Comcast invests the entire $1bn in upgrading its network, it will cover only a fraction of the US. This suggests three explanations for Microsoft's move. First, that Mr Gates hopes to provoke copycat investments by other cable companies. Second, that he hopes Comcast will help influence the technical standards for digital TV and the like in a way that favours Microsoft products. Third, that Microsoft has so much cash pouring out of every orifice that $1bn is small beer.



Atlas Copco

Mr Giulio Mazzalupi, Atlas Copco's new chief executive, is clearly anxious to leave his mark. Six weeks into his job, he has spent $1.2bn on a new means of selling Atlas's construction and industrial equipment by acquiring equipment rental business Prime Service. The expected reward is faster sales growth than the 5 per cent or so that can be expected from its core businesses.

However, the risk is increased exposure to the US construction cycle. At least the last US recession showed the virtues of leasing rather than buying capital equipment, and the equipment rental industry achieved growth of nearly 20 per cent a year in the 1990s. This trend should provide some protection from any downturn in construction activity – although Prime also sells new and old equipment, where business will be hit harder.

But the real concern with Prime is the price paid, a whacking 24 times estimated 1997 profits. Even if it registers 15 per cent profits growth for the foreseeable future, the return on Atlas's investment will not match its cost of capital until around 2001. And there are few cost synergies to help justify the premium paid. To make the deal work, Atlas could pursue better value bolt-on deals in a heavily fragmented industry. And it could use Prime as a blueprint for developing more effective distribution of its products in faster growing regions such as Asia Pacific. But either way, the payback still looks distant.

NatWest

After the dismal underperformance of the past year – 25 per cent against Barclays – nobody could begrudge Britain's National Westminster Bank shareholders the rally of recent days. And disappointment that no deal with Abbey National looks likely is at least mitigated by relief that the talks took place at all. Still, shareholders should steel themselves for further pain before they can expect any gain. The fact that talks were sought is confirmation of the management's uncertainty about the outlook for organic growth. NatWest UK continues to underperform its competitors, and it is unclear whether heavy spending on investment banking can deliver decent returns.

Yet rescue by merger or takeover could be a very long haul. NatWest has strengths in areas like credit cards and small business, but suitors will surely baulk at the stolid mix of wholesale and investment banking. HSBC is probably the only plausible domestic candidate to make a bid, but has made clear that it is not interested in paying hefty premiums for developed world banks. Any break-up plan would probably founder on a huge goodwill write-off, while continental banks should be able to find better ways of preparing for a single market.

UK power

That distant rumble is unmistakeable; it is a bandwagon beginning to roll. Proper competition is still lacking in UK power generation. And worse, this could make a nonsense of retail competition. That is the stuff not just of depressing industry gossip but now of a detailed London Economics study prepared for East Midlands Electricity.

Few will be surprised by the starting-point; although National Power and PowerGen were forced to sell some power stations to Eastern Group, the trio are bidding power prices rather eccentrically for supposedly red-blooded competitors. Just as worrying, though, is the suggestion that the generators and regional electricity companies could as a result have a common interest in restricting retail competition. Consider, the study suggests, a nightmare scenario: incumbent generators and recs tie up cosy long-term contracts while forcing new entrant generators and recs to face artificial volatility in the electricity pool.

None of this has happened. And if the regulator does his job, none of it should. Yet it may be difficult to stop any funny business effectively without attacking the root of the problem: the generators' remaining market power.

Granada/Yorkshire

Britain's Granada seems to have won the war of words over how much to pay for Yorkshire-Tyne Tees Television. Last year, after Granada had boosted its stake to 27 per cent, Yorkshire claimed it was worth £17 a share. Granada countered in March, saying it had no intention of bidding at the then price of £12.80. Now Yorkshire is seemingly prepared to accept only £11.75. Hats off to Granada for talking the price down. While the price is certainly not low, it shows bidders do not always have to meet inflated market expectations. Other purchasers should have the confidence to take a leaf from its book.

Additional Lex on BAA, Page 27

Paris seeks delay over stability pact

Continued from Page 1

which presently holds the rotating presidency of the EU, immediately sought to contain the political damage. Mr Gerrit Zalm, Dutch finance minister, said France had not called into question the principle of the pact nor the timetable for launching Emu.

A senior German diplomat admitted it was possible the timetable for wrapping up the intergovernmental conference (IGC) in Amsterdam next week could slip into July.

A slippage in the IGC could delay preparations for opening accession negotiations with central and eastern European countries. This kind of chain-reaction is what EU governments most fear.

Separately, the French request jeopardises the earlier commitment to agree three legal texts on the nuts and bolts of Emu: the budget and stability pact; a new exchange rate mechanism governing relations between the countries in and outside the euro zone; and the legal status of the euro.

Music industry launches hi-tech move to curb piracy

By Alice Rawsthorn in London

Record companies will adopt a system at the end of this month to help them identify whether pirates are hijacking their music.

The system, which will use "embedded signalling" technology, is part of the music industry's efforts to curb piracy at a time when the development of services to distribute music on the internet or high-speed cable television networks is accelerating.

Mr Nic Garnett, director of the International Federation of the Phonographic Industry, which represents the world's record companies, described the system as a defence against piracy once digital distribution comes on stream.

In the meantime, he said, record companies could use it to identify whether their copyrights were being used lawfully. The system works by implanting an inaudible "tattoo" in the analogue part of a musical signal which identifies the owner of the copyright.

System allows companies to identify who owns copyright

This means that, if the music is broadcast, either as a digital signal or in analogue form, over the radio for instance, it is possible to identify which company is entitled to receive royalties.

The embedded signalling system has been developed at the IFPI's behest to prepare for the emergence of a digital music market.

Eurodat, a French software company, started a pilot project this spring to sell music directly to the home computers of consumers linked to Lyonnaise des Eaux's high-speed cable network. Deutsche Telekom, Europe's largest telecommunications group, is in advanced talks with German record companies to launch a larger trial in Germany this summer.

One of the music industry's chief concerns about online distribution is the dearth of technical and legal safeguards to protect copyrights.

IFPI has mounted a political lobby to secure the necessary legislative reforms and is orchestrating the development of technical systems to curb piracy.

The embedded signalling system will be the first of these technical projects to come to fruition. Six different versions have been submitted for scrutiny and the IFPI will decide before the end of the month which will be adopted as the industry standard.

It will take until the end of the year to complete the development of two other technical projects: an encryption system enabling the industry to control access to digital musical signals by encoding them; and a digital interface to transfer music electronically from one record company's archive to another.

New audio disc, Page 6

Microsoft plan

Continued from Page 1

which offers consumers access to the internet from their TV sets.

Comcast plans to provide high-speed optical fibre links to 85 per cent of its 4.3m customers by the end of next year.

Mr Brian Roberts, Comcast president, said that already about half the cable company's networks had been upgraded.

German coalition seeks end to crisis

Continued from Page 1

of about DM60bn ($34.6bn) and to plug a gap of more than DM20bn in this year's finances. Intensive negotiations are taking place between the finance ministry and spending departments and inside the coalition of Mr Kohl's CDU, the FDP and the Christian Social Union, the CDU's Bavarian sister party, to find savings and increase privatisation revenues.

At the weekend, Mr Theo Waigel, the finance minister and CSU leader, appeared to move towards the FDP position. He signalled that he would seek further spending cuts and would not raise taxes this year. But the prospect of lower outlays on social spending was condemned yesterday by leftwing members of Mr Kohl's CDU.

As part of the privatisation programme, Mr Waigel is investigating a far-reaching sale of government properties, including housing, although officials from his ministry underlined that such transactions were complex and would take time to complete.

Meanwhile, the government was confronted with bleak economic news. Ifo, the Munich-based economic research institute, warned that industry would continue to shed labour in Germany until 1999 while expanding investment and sales abroad.

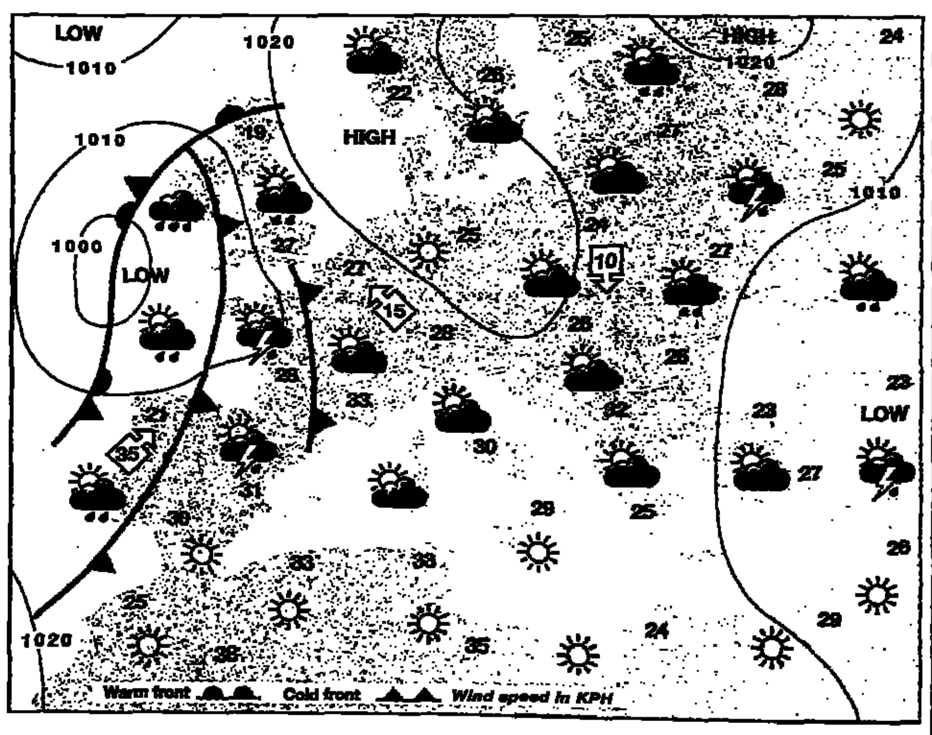
FT WEATHER GUIDE

Europe today

Most of Europe will be sunny with occasional cloud but the British Isles and the Atlantic coasts of France and Spain will be cloudy with rain. The UK will have heavy local showers.
France may have thunder storms.
Temperatures will be more than 25C in most places on the Continent.
Temperatures of at least 30C are likely over eastern Spain, southern France and the northern parts of Italy.
Southern Scandinavia will be cooler with readings of between 20C and 25C.
Eastern Europe will be fair with a mix of cloud and sun.

Five-day forecast

Cooler air will move in over the Continent from the Atlantic, reaching the area from Poland to the Adriatic by the end of the week. Several thunder storms will develop along this front.
After the front passes, conditions will become more settled.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	fair 28	Caracas	shower 32	Faro	fair 23	Madrid	fair 29	Rangoon	shower 30
	Celsius	Belfast	rain 20	Cardiff	rain 21	Frankfurt	sun 29	Majorca	sun 30	Reykjavik	rain 12
Abu Dhabi	sun 40	Belgrade	cloudy 26	Casablanca	fair 23	Geneva	fair 30	Malta	sun 29	Rio	fair 23
Accra	shower 29	Berlin	sun 25	Chicago	fair 26	Gibraltar	sun 27	Manchester	cloudy 23	Rome	sun 29
Algiers	sun 32	Bermuda	shower 26	Cologne	sun 28	Glasgow	rain 19	Manila	shower 33	S. Frsco	fair 21
Amsterdam	fair 26	Bogota	thund 20	Dakar	sun 30	Hamburg	sun 24	Melbourne	fair 17	Seoul	fair 25
Athens	fair 29	Bombay	fair 34	Dallas	thund 32	Helsinki	fair 24	Mexico City	fair 26	Singapore	fair 33
Atlanta	thund 28	Brussels	sun 27	Delhi	sun 37	Hong Kong	shower 32	Miami	thund 31	Stockholm	fair 26
B. Aires	shower 15	Budapest	sun 26	Dubai	sun 39	Honolulu	fair 31	Milan	cloudy 27	Strasbourg	fair 29
B.ham	shower 25	C.hagen	sun 21	Dublin	rain 19	Istanbul	fair 23	Montreal	sun 28	Sydney	sun 19
Bangkok	thund 37	Cairo	sun 29	Dubrovnik	sun 26	Jakarta	shower 31	Moscow	fair 26	Tangier	sun 25
Barcelona	fair 26	Cape Town	shower 16	Edinburgh	rain 17	Jersey	shower 20	Munich	sun 28	Tel Aviv	sun 26
						Karachi	sun 36	Nairobi	fair 25	Tokyo	shower 26
						Kuwait	sun 43	Naples	sun 30	Toronto	fair 28
						L. Angeles	fair 23	Nassau	thund 32	Vancouver	fair 20
						Las Palmas	fair 27	New York	fair 30	Venice	sun 25
						Lima	fair 25	Nice	fair 27	Vienna	fair 25
						Lisbon	shower 24	Nicosia	sun 27	Warsaw	cloudy 23
						London	fair 27	Oslo	cloudy 22	Washington	sun 31
						Lux.bourg	fair 26	Paris	fair 29	Wellington	rain 12
						Lyon	fair 33	Perth	shower 19	Winnipeg	fair 26
						Madeira	sun 22	Prague	fair 24	Zurich	sun 27

FINANCIAL TIMES
COMPANIES & MARKETS
Tuesday June 10 1997 Week 24

IN BRIEF

US insurer pays $2.65bn for rival

The reshuffle of assets in the US insurance industry continued with the $2.65bn acquisition by Seattle-based Safeco of control of American States Financial, a property and casualty insurer, from Lincoln National. Page 24

Sony in deal to sponsor NBA
Sony Corporation's US subsidiary has entered into a marketing pact to sponsor the National Basketball Association. Details of the deal were not disclosed, but it is likely to be worth several million dollars a year. Page 24

Italian telecoms share prices fall
Shares in Stet and Telecom Italia, the Italian telecoms groups to be merged and privatised, fell sharply as investors reacted to the Treasury's decision not to convert their savings shares into ordinary voting shares. Page 26

Sprint adds spice to poison pill
Sprint, the US's third-biggest long-distance telephone company, has tightened its poison pill arrangements in a move that would make it more difficult for an unsolicited bidder to build a large stake in the company. Page 24

Usinor looks to strong second half
Usinor of France signalled better times for European steelmakers, predicting its second-half profits would be "much higher" than a year ago. Mr Francis Mer, chairman, said demand for steel was very firm. Page 25

Unigate looking for acquisitions
UK-based Unigate is looking for further acquisitions after completing its reshaping as a fresh food and distribution group. Page 27

Higher copper prices forecast
Bankers Trust has increased its copper price forecasts following the discovery by its analysts of differences in official statistics covering copper consumption in China. Page 30

Companies in this issue

Market Statistics

https://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Badenwerk	580	+	28
Holzmann	483	+	8
Victoria Hldgs	1570	+	20
Falls			
BMW	1365	–	63
Linde	1291	–	25
SGL Carbon	233.50	–	5.50
NEW YORK ($)			
Rises			
Amer States Fn	45¾	+	7⅛
Cox Comm	24¼	+	2
Prime Service	31⅛	+	6⅛
US West Media	22⅞	+	2⅛
Falls			
Perkins Family	11⅛	–	1⅝
Stat Soc A	33⅞	–	6⅛
LONDON (Pence)			
Rises			
Bridon	99	+	8½
Drew Scien.	150	+	17½
NatWest	816	+	35½
Ward Hldgs	62½	+	13
Falls			
Acal	416½	–	56
Treatt	132½	–	20½
TORONTO (C$)			
Rises			
Domco	20.60	+	5.85
Haley Inds	4.80	+	0.50
Mitec Tele	10.50	+	1.15
Stratos Gbl	3.50	+	0.49
Falls			
Intl Curator	6.50	–	0.55
Miltronics	18.00	–	1.25
PARIS (FFr)			
Rises			
Bongrain	2242	+	42
Elf-Gabon	1785	+	36
Fimalac	793	+	68
Latecoere	745	+	63
Falls			
Cs Gironde	511	–	49
Taittinger	2850	–	74
TOKYO (Yen)			
Rises			
Kosei Secs	491	+	80
Tsukamoto	1010	+	69
Yahagi Iron	510	+	80
Falls			
Fujita Kanko	1470	–	70
Horiba	1360	–	70
Shimano	2120	–	120
BANGKOK (Baht)			
Rises			
Alphatec Elec	47.75	+	4.25
Far East	91.00	+	7.00
Yonghui Chm	20.75	+	1.75
Falls			
Carpets Inter	38.00	–	4.00
Sahaviriya Univrsl	20.75	–	2.25
Thang Sen Fd	34.25	–	5.75

New York & Toronto prices at 12.30. Hong Kong closed.

Swedish engineering group boosts position in North American market

Atlas Copco pays $900m for US rental company

By Greg McIvor in Stockholm

Atlas Copco, the Swedish engineering group, is buying Prime Service, the second-largest rental equipment company in the US, for $900m – the biggest purchase in its 124-year history.

The deal strengthens the group's presence on the North American market and is its second big acquisition in the region since its $550m purchase of Milwaukee Electric Tool two years ago.

The deal gives Atlas a strong position in a sector which has grown at about 20 per cent a year since 1991, reflecting the trend for companies to lease rather than buy construction equipment.

Prime, which made operating profits of $66m last year on sales of $330m, is to be merged with the much smaller rental equipment operations of Atlas's North American subsidiary. The new group will have turnover of $375m.

Analysts said Atlas's move into the fast-growing leasing market would enable it to offset relatively sluggish growth in its engineering business, where it makes compressors, construction and mining equipment.

Atlas said it would also benefit from access to Prime's network of 122 outlets, which currently lease compressors manufactured by a rival company. It said it would replace and expand Prime's fleet of rental equipment and expected to increase sales of new and used equipment.

The company said Investcorp, the Bahrain-based investment company, as well as other allied institutional investors which together hold 74 per cent of the shares, had agreed to accept its $32 a share offer. This represents a 28 per cent premium over Prime's closing share price last Friday. Atlas is also taking on $260m in debt.

Mr Colin Gibson, engineering analyst at UBS in London, said: "It looks a fairly expensive acquisition, but quality companies cost money and the deal makes good industrial sense." Companies which are not involved in the leasing, rental and other parts of the so-called "after-market" risk being left behind, he added.

The deal will reduce Atlas's equity/assets ratio from 51 per cent to 37 per cent. Up to 28 per cent of the purchase price would be paid in cash, with the rest financed by debt. Some $700m in goodwill will be amortised over 40 years, Atlas said. Merrill Lynch advised Atlas and Credit Suisse First Boston advised Prime.

Atlas said there would be a positive impact on cash flow, but the deal would dilute earnings by up to 5 per cent this year and next year.

Investors reacted favourably, pushing up Atlas's most-traded A shares SKr5.50 to SKr217.

Lex, Page 20

Saab of Sweden launched its latest model yesterday. The company, half-owned by General Motors, hopes the upmarket 9-5 will help it back into profit. Report, Page 25 Picture: Reuter

Parmalat in $300m agreed bid for Ault Foods

By Paul Betts in Milan

Parmalat, the Italian dairy products group, yesterday stepped up its expansion in North America with an agreed C$415m ($300m) bid for Ault Foods, the Canadian food processing company.

The deal also sees the Italian group, which acquired Beatrice Foods of Canada for C$290m two months ago, acting as a "white knight" to thwart a hostile bid for Ault by the Montreal-based Saputo group.

Under the agreed acquisition, Parmalat will offer C$34 a share for all outstanding Ault shares, topping Saputo's C$28 a share hostile bid.

Parmalat has again teamed with Citicorp, the New York bank which flanked the Italian group in the purchase of Beatrice Foods. Parmalat and Citicorp will underwrite 75.1 per cent and 24.9 per cent respectively of a C$150m capital increase in Parmalat Canada Inc to fund part of the C$415m cash acquisition.

The balance will be financed through a tender facility co-arranged and fully underwritten by Citibank Canada, Bank of Nova Scotia and Bank of Montreal. The cash offer which will open on June 11 for a minimum of 21 days and Ault will recommend the deal to its shareholders.

Parmalat said the combination of Beatrice Foods and Ault would create a group with annual sales of nearly C$2bn and a gross operating margin of more than C$110m.

This combined group would have the largest share of the Canadian fluid milk market, a strong position in the North American "private label" bakery sector as well as in the Canadian cheese business.

Parmalat said it was already considering listing its new Canadian operations on the stock market.

The latest bid by Parmalat is part of an aggressive international expansion programme that has seen the Italian group acquire assets in Latin America, eastern Europe, and in the US with its purchase four years ago of Atlanta Dairies.

Parmalat said the cash offer was subject to acceptance by two thirds of Ault's common share holders and the necessary regulatory approvals.

Airports group says UK must have new terminal

By Michael Skapinker, Aerospace Correspondent

BAA, the UK airports group, yesterday warned that the south-east of England would be unable to cope with an expected doubling of the number of air passengers over the next 20 years if Heathrow airport was not allowed to build a fifth terminal.

Sir John Egan, chief executive, said the government inquiry into the proposed terminal was the longest in the UK. The inquiry is expected to continue until July next year. He said the proposed terminal could not open until 2004.

Sir John was speaking after the group announced full-year pre-tax profits, after exceptional items, of £407m ($663m) to March, down 2.6 per cent on the previous year. The results were in line with expectations and the shares rose 2½p to 540p. Pre-tax profits before exceptionals were £444m, a 10.2 per cent increase on last year. The main exceptional item was a £40m write-off of previously capitalised interest relating to the Terminal Five project.

The group announced in April it would no longer capitalise interest relating to the terminal until it had received government permission for the project. The accounting change meant that £13m, which would have been capitalised in 1996-97, appeared as an interest charge in this year's profit and loss account.

Revenues were £1.37bn, an increase of 9.6 per cent. Retailing is BAA's largest business, accounting for 44.1 per cent of revenue. Retail revenue was up 9 per cent to £606m.

The rise was achieved in spite of a lower level of passenger growth last year at the group's seven airports. Passenger numbers were up 4.6 per cent last year to 98m, compared with a 6.7 per cent rise the previous year. BAA said it had achieved the increase in retail revenues through higher expenditure per passenger.

Revenues from airport charges rose 7.6 per cent to £467m. Airport charges accounted for 34 per cent of total revenue. Revenues from property were up 18.4 per cent to £252m, accounting for 18.4 per cent of the total.

Earnings per share after exceptionals were 28.4p, a fall of 6.6 per cent. The final dividend of 7.9p brings the total to 12.4p, an increase of 10.2 per cent. Interest cover increased from 4.8 to 5 times. Gearing remained at 33 per cent.

Lex, Page 27

BankAmerica shifts emphasis with Robertson Stephens deal

By Tracy Corrigan in New York

BankAmerica, the third-largest US commercial bank, yesterday announced the $540m purchase of Robertson Stephens, the privately held San Francisco-based investment bank, and the sale of its consumer finance subsidiary, signalling a shift from retail towards institutional business.

The net proceeds of the sale of Security Pacific Financial Services and the previously announced sale of its branch banking operation in Hawaii, will pay for the acquisition, BankAmerica said.

"We have said consistently that we would take capital out of underperforming businesses and redeploy it where we think it can earn better returns for our shareholders," said Mr David Coulter, BankAmerica's chairman and chief executive officer. The bank seeks returns above its cost of capital of about 12 per cent.

Robertson Stephens is best known as an investment bank to fast-growing technology companies in Silicon valley, but is also active in healthcare, consumer products and real estate.

The $540m price is estimated at five times its book value, making it the most expensive of the recent spate of investment banking acquisitions by commercial banks. Last month, Swiss Bank Corporation bought Dillon Read for three times its book value, while Bankers Trust recently paid 2.7 times book for Alex Brown.

BankAmerica will initially pay out only $245m, followed by $225m over three years to managing directors who remain with the company. The remaining $70m will be paid over four years.

Mr Sanford Robertson, chairman and founder of Robertson Stephens, will join the BankAmerica board of directors, while Mr Michael McCaffery will continue as president and chief executive officer, reporting to Mr Mike Murray, president of BankAmerica's global wholesale bank.

As well as developing Robertson Stephens' franchises, the bank plans to add areas such as gaming and media, where it has a strong commercial banking position.

Security Pacific Financial Services was sold to Commercial Credit Company, a subsidiary of Travelers Group, for about $1.6bn, a premium of about $300m over net tangible assets.

Commercial Credit will have $10bn of receivables and a branch network of over 1,000 offices. SPFS was BankAmerica's only non-banking consumer finance business.

Taiwan prepares to launch futures trade by year-end

By Peter Montagnon, Asia Editor, in London

Taiwan should be ready to launch its first financial futures contract, based on the Taiex stock index, by the end of this year or early in 1998, Ms Gloria Tseng, a legal adviser to the country's embryonic Taiwan International Mercantile Exchange (Time), said in London.

Legislation permitting the establishment of futures trading in Taiwan came into force at the start of this month, and plans were well under way for the launch of dealing as part of the country's efforts to modernise its financial markets, Ms Tseng told a seminar in London.

Taiwanese regulators have acquired some familiarity with futures markets as local investors have been permitted to trade in overseas exchanges since 1992. Moving to domestic trading was a logical next step which should make Taiwan's equity market – hitherto somewhat neglected by international investors – more attractive because of new hedging opportunities.

Ms Tseng said a group of government officials and financial services experts had decided to set a screen-based trading system through Time which would be incorporated and owned 5 per cent each by the Taiwan Stock exchange and the Taiwan Securities Depository Company. No single shareholder would be allowed to own more than 5 per cent.

The Taiex was chosen for the first contract because it is the best-known local index and best adapted for use as a hedge, but she admitted there were some downsides, as it covers 350 separate stocks, some of which are small and vulnerable to price manipulation. Also it needs revision when there is a new listing.

As further evidence of Taiwan's efforts to develop its markets, Mr Cheng Hsing Chen, chief financial services negotiator on Taiwan's application to join the World Trade Organisation, said it had also established a domestic bond rating agency in partnership with Standard & Poor's.

But financial officials remain concerned that foreign institutions are not giving full weighting to Taiwan. Among the problems appear to be a tight settlement timetable and the bureaucratic burden of dealing through a designated intermediary.

According to the UK-based Micropal, which measures international fund performance, Taiwan's booming stock market attracted $650m of new investments by global and regional emerging market funds during the first quarter of this year, making it the most popular emerging market during the period.

Regional funds had an average weighting of 7 per cent in Taiwan equities at the end of the period, double the level a year earlier, but 7 out of the 46 funds surveyed by Micropal had no weighting at all in Taiwan and many global institutions have been reluctant to step up their holdings in line with the weighting now accorded to Taiwan in Morgan Stanley's benchmark emerging market index.

Revenues slip at Japan's life assurers

By Gwen Robinson in Tokyo

Japan's leading life assurance companies suffered falling revenues in the year to March, as declining interest rates prompted pension funds to transfer group contracts to the more competitive fund management groups.

Premium income for the leading eight life assurers fell for the first time in six years, by 5.4 per cent to a combined Y21,400.3bn ($185.5bn).

However, in spite of lacklustre earnings, all eight raised dividends for individual policyholders. The increases were funded through personnel reductions and other cost-cutting efforts.

The assurers also made progress in writing off bad loans to the financially troubled non-bank affiliates and housing loan companies, or *jusen*. The write-offs were financed through the sales of bonds and assets, including property holdings.

Three of the eight – Asahi Mutual Life Insurance, Mitsui Mutual Life, and Chiyoda – saw net assets decrease for the first time since the second world war.

As mutual companies, the assurers are not listed on Japan's stock exchanges and announce their annual results in two phases. Their liabilities, the most important indicator of their financial health, will be announced next month.

The Tokyo stock market's sharp decline meant the leading eight assurers saw combined unrealised profits on stock holdings nearly halve to about Y6bn, from Y11.4bn the previous year.

However, analysts said the impact of the fall was negligible. "These losses would amount to 0.5 per cent of total liabilities – they are tiny," said Mr Andrew Smithers, an independent economist who monitors Japanese life assurers.

Nippon Life Insurance, the world's largest assurer, which last week announced a tie-up with the US investment management group Putnam Investments, saw insurance premium income fall 4.1 per cent to Y5,894.8bn. Recurring profit, however, grew 61.1 per cent to Y491.5bn as the company cut bad debts to Y89.2bn, sharply down from Y227.5bn a year ago.

Nippon Life, which as market leader has led moves to regain the confidence of large corporate and public pension funds after financial deregulation, also plans to double its capital base to Y300bn in order to protect policyholders. The increase will be funded by borrowing.

Dai-Ichi Mutual Life, Japan's second largest life assurer, saw premium income fall 5 per cent to Y3,885.6bn. Recurring profit, however, surged 55.6 per cent to Y343.4bn.

Like other leading life assurers, Dai-Ichi Mutual plans to boost investments in the current year to March and will invest about Y300bn in foreign-currency bonds and Y500bn in Japanese bonds.

Sumitomo Life said premium income dropped 3.4 per cent to Y3,435bn, while recurring profit slid 17.1 per cent to Y303.7bn.

Passing on the baton of modernisation

Power at MBf, Malaysia's leading finance company, is being handed down a generation

The life of Mr Loy Hean Heong, chief executive of MBf Group, which runs the MasterCard franchise in Malaysia, is typical of the rags-to-riches stories of ethnic Chinese tycoons whose forebears arrived in south-east Asia with barely a penny to their name.

Now Malaysia's largest leading finance company, MBf Group began life as a tractor repair business, set up on the back of a M$300 loan from his father.

The baton is now about to pass to Mr Loy's son, Mr Loy Teik Ngan. The transition, which involves a good deal more than a M$300 loan, is indicative of the generational change now taking place in many family-run Chinese businesses.

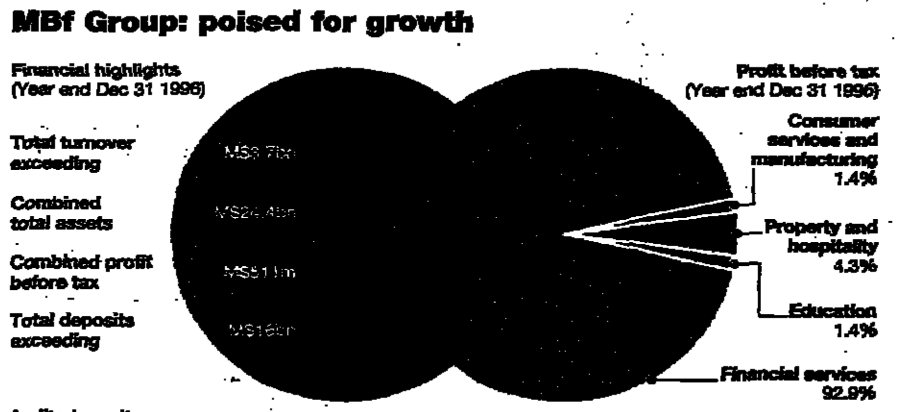
For MBf such reforms are all the more pronounced because of an aggressive regional expansion plan to help lift group pre-tax profits from M$511m in 1996 to M$1bn (US$398m) by 2001.

Much of the wealth of south-east Asia is held by the Chinese diaspora, who number about 55m. Their corporations are known for a rigid, top-down management style, with responsibility concentrated in a trusted family circle.

The men who run these businesses are often in the mould of patriarchs – tough and shrewd, but not necessarily well-educated. Strategic planning is sometimes more the product of gut instinct than market research.

However, in the space of a single generation, much has changed. While Mr Loy senior can remember his family having to eat cat meat when times were hard, his son has experienced no such privations. He studied economics at a Canadian university, has a taste for flamboyant ties, and is said to be less fierce than his father. "The way overseas Chinamen do business is being modernised," says Mr Loy. "We are using professional methods from other regions, such as the west."

MBf Group: poised for growth



Audited results (Year end Dec 31 1996)

	1996	1995	% increase
Profit before tax	M$511m	M$388m	+32%
Earnings per share	M$0.43	M$0.34m	+26%
Shareholders' funds	M$1.7bn	M$1.4bn	+20%
Total assets	M$21.1bn	M$15.5bn	+36%
Total loans and advances	M$14.3bn	M$10.6bn	+34%
Total deposits	M$16.4bn	M$12.2bn	+35%

Source: MBf group

The group comprises two listed companies, MBf Holdings and MBf Capital, with combined assets of M$24.4bn, customer deposits of M$16bn and a network of 145 branches.

The modernisation that began a few years ago is accelerating as the company grows and as the succession unfolds. "Hopefully the second generation can step in in five years' time. I have already relinquished 25 to 30 per cent of my responsibilities, because I am allowing them to take over," Mr Loy says. The younger Mr Loy, for example, already holds the post of chief operating officer at MBf Capital.

In past years, Mr Loy made almost all key decisions, but now restricts himself mainly to trouble-shooting and strategic planning. Beneath him is a team of six auditors-cum-analysts who warn him of the first sign of trouble. "I only talk to those who are not performing. Those who are doing OK, I do not talk to," he says.

There are strict rules. "We usually give them a year or 18 months to show us why they cannot turn [a business] round. Then if it does not improve, we call it a hard-core losing company which we chop off."

Those managers who meet their revenue targets receive 11 to 12-month bonuses – plus an 8 to 12 per cent increment – but those who fail to meet targets do not get a bonus. The team of auditors ensure that managers do not set easy targets.

As the company spreads overseas, so decision-making and responsibility is devolved. Country managers run the business day-to-day without recourse to Mr Loy and, in an important recent development, they have been given investment quotas which they can use without seeking his approval.

Demands for greater transparency from potential partners overseas are also helping to lift the traditional veil of secrecy. MBf recently received a non-bank licence to issue MasterCard in Taiwan, where its Chinese cultural heritage undoubtedly helped to open doors. In Indonesia, MBf began issuing MasterCard in April though a joint venture, PT Sejahtera MBf Multi-Finance.

In Thailand, MBf bought a small factoring concern about five years ago, and Mr Loy thinks the current economic problems in that country could throw up new opportunities. "Now that the market is not doing too well, it may be a very good time for us to move in. It will be much cheaper," he says.

After a slow start in the Philippines, the company has bought a small bank, Unibank, with which it hopes to launch credit card, car financing and other services. In Burma, it has a representative office, which it hopes to turn into a joint venture bank by the end of the year.

But although the modernisation of traditional Chinese business practises is diminishing, the importance of contacts within the diaspora – the "bamboo network" of ethnic Chinese businessmen – is clearly still important.

"We emphasise culture," Mr Loy says. "You can sign a lot of pieces of paper, but if the person you are dealing with is no good, nothing will come of it. We look at the heart ... we do a lot of business on a handshake."

James Kynge

MTV Asia in talks with potential investors

By Alice Rawsthorn

MTV Networks Asia, the video music service owned jointly by Viacom of the US and PolyGram of the Netherlands, is in talks with prospective shareholders to raise additional capital.

The service, which went on air two years ago and operates three channels across Asia, is still making a loss after absorbing $100m of capital provided by the two founder-shareholders.

PolyGram, one of the world's largest record companies and a subsidiary of Philips, the Dutch consumer electronics group, affirmed that MTV Asia required more capital and that negotiations were under way with potential investors.

The new shareholder is expected to be an Asian company. Hotel & Properties, the Singapore leisure group which owns the regional franchise for the Hard Rock Café, has been mentioned as a possible investor, as has Chaoren Phopkand, the Thai industrial group.

Since its debut in 1995, the current MTV Asia has faced fierce competition from local music channels in individual countries and from Channel [V], a rival pan-Asian service which is 50 per cent owned by Star TV, a subsidiary of Mr Rupert Murdoch's News Corporation.

Channel [V] was launched in 1994, after Star TV stopped broadcasting the original MTV Asia, then wholly owned by Viacom, which is still MTV's parent company in Europe and North America.

Star TV subsequently sold a 50 per cent stake in MTV Asia to four of PolyGram's rival record companies: Japan's Sony, Warner of the US, Germany's Bertelsmann and EMI of the UK.

Meanwhile, PolyGram formed a joint venture with Viacom to relaunch MTV Asia in 1995. That service has struggled to break even in the face of stiff competition for advertising revenue from Channel [V], which is also still loss-making.

MTV Asia reshuffled its senior management last autumn.

The search for a new shareholder in Asia comes as MTV is preparing to face stronger competition in other regions, notably Europe, where several consortia are planning to launch video music channels on digital television networks.

The first of MTV Europe's new competitors is expected to be Channel [V], which is scheduled to go on air in the UK later this year.

The BBC, Virgin, Emap and Granada are also considering proposals to introduce UK video music channels.

MTV Europe is "nationalising" its European service, notably by introducing a dedicated UK channel this summer.

ASIA-PACIFIC NEWS DIGEST

Telekom Malaysia buys Samart stake

Telekom Malaysia, the country's dominant telecoms conglomerate, said yesterday it was acquiring 20 per cent of Thai telecommunications company Samart in a deal valued at US$71.6m. This stake is in addition to the company's previously announced purchase of 33 per cent of Digital Phone Company, a subsidiary of Samart, for $135m.

Telekom Malaysia has also agreed to purchase a further 7 per cent stake in Digital Phone by March 1998 for $45m, making the total deal Malaysia's largest single investment in Thailand. Mr Mohamed Said Bin, Telekom Malaysia chief executive, said this extra stake could be sold to a third party offering technology or management expertise.

The Malaysian group will appoint both the chief executive and chief financial officer of Digital Phone, a new cellular operator scheduled to begin operations in the first quarter of 1998, with up to 50,000 initial subscribers transferred from rival Total Access Communications.

Samart said that by selling a stake in the parent company, which manufactures satellite equipment and operates Thailand's second-largest paging service, it hoped to help Telekom Malaysia construct Malaysia's Multimedia Super Corridor south of Kuala Lumpur.

By taking a stake in Samart, Telekom Malaysia obtains access to a large range of telecommunications services in Thailand beyond the new cellular network, in addition to Samart's profitable mobile phone operations in Cambodia, where Malaysian companies are the largest foreign investors.

Ted Bardacke, Bangkok

CIBC in $175m Korean deal

Hyundai Electronics, an affiliate of South Korea's Hyundai Group, said yesterday it would sell a 30.93 per cent stake in Citizens Investment Trust Management and Securities Co Ltd to a Canadian bank.

Canadian Imperial Bank of Commerce will buy the shares for $175m, becoming the biggest single shareholder in the South Korean securities house. The sale is expected to be completed in mid-June. Hyundai Group would remain the biggest shareholder, with two affiliates owning a combined stake of 36.86 per cent, Hyundai Electronics said.

Reuter, Seoul

NTT to form overseas unit

Nippon Telegraph and Telephone, the Japanese telecommunications giant, said yesterday it would form a unit, possibly as soon as July, to start international services. "We plan to start international services in the autumn," said Mr Masanobu Suzuki, executive manager of NTT, which is currently restricted by law to domestic services. "We need to form a new unit in July, or early August at latest," he said.

Reuter, Singapore

PT Maharani plans offering

PT Maharani, the Indonesian finance company, said yesterday it planned to raise Rp35.28bn ($14.5m) from a public offering later this month.

Maharani, a finance company providing leasing, factoring, consumer financing and corporate finance facilities, said it would offer 58.8m shares, or 49 per cent of its paid-up capital, to the public. The shares, with a par value of Rp500, would be offered at Rp600 a share from June 30 to July 2. The firm said funds raised would be used to expand its business activities and to repay debt. Maharani would be listed on July 16 on the Jakarta and Surabaya stock exchanges. The company posted net profit of Rp1bn last year, compared with Rp840m in 1995.

Reuter, Jakarta

Indian investment by LG unit

LG Electronics India, the wholly-owned subsidiary of LG Electronics, the South Korean group, said it planned to invest US$289m over the next nine years in the country's white and brown goods industry.

The company said that in the first phase, from 1998 to 2001, it would invest $146m to set up manufacturing facilities near Delhi. This plant, expected to start commercial production in early 1998, would produce 800,000 colour televisions, 400,000 refrigerators, 230,000 audio systems, 200,000 washing machines, 100,000 air-conditioners and 30,000 video cassette recorders, it said.

The second phase, from 2001 to 2005, will attract investment of $143m to increase existing capacities in finished products and to add capacity for the production of compressors, fly-back transformers and motors.

AFX-Asia, Bombay

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AMERICAS NEWS DIGEST

Corimon returns to profit for year

Corimon, the Venezuelan paints group, returned to profit in 1996-97 with net income of Bs3.47bn ($7.12m), compared with a Bs105.7bn loss for the previous fiscal year. Mr Francisco Layrisse, president of Corimon, said that structural reforms had allowed "us to present a company with healthy accounts even after the [recent] provisions we have made." Corimon hoped the New York Stock Exchange would now lift the suspension on trading of the company's shares, which was imposed in February 1996 for reporting violations.

Sales volume of paints dropped 14 per cent, but cost-cutting produced a moderate operating profit. As part of its debt for equity swap established in last year's rescue plan, Corimon will propose a capital stock increase of 450m shares, which would reduce its total debt to $40m, down from $198m last year. Corimon ran into financial trouble in late 1995 after several foreign acquisitions failed to perform as expected. *Raymond Colitt, Caracas*

Royal Insurance expands

Royal Insurance Company of Canada and an affiliate, both part of the UK's Royal & Sun Alliance insurance group, have agreed in principle to purchase the Canadian personal insurance business of Hartford Financial Services, of the US. Royal and its affiliate Western Assurance will acquire a portfolio of accounts worth about US$25m in annual written premiums. The companies declined to provide financial details of the deal. Royal said the purchase fitted with the company's strategy to grow through acquisition.

Hartford, one of the largest US companies with US$12.5bn in revenues in 1996, will retain its Canadian commercial line. It said it was selling its personal line because it had captured only a small segment of the Canadian market and the company preferred to focus on its commercial operations in Canada. *Scott Morrison, Vancouver*

CVG head affirms sell-offs

The president of the state-owned Corporación Venezolana de Guayana, Mr Elias Nadim Ynaty, discounted recent concerns that the privatisation of the company's steel and aluminium plants would not go ahead as planned because of opposition from congress. "Some parliamentarians have concerns that we need to address and that could take a few weeks more or less. But I am sure that we will get the authorisation for the sale of the aluminium and steel plants this year," he said.

The affirmation came after Mr Alberto Poletto, the head of the FIV, the government privatisation agency, said he was "worried" that congress had still not begun to review the executive's proposed sale contract for Sidor, the 3m-tonnes-a-year steel plant. Some of the investors had indicated they could withdraw from the sale process if congress did not approve the contracts by October, after which it would take approximately two months before the actual tender. The CVG is expecting some $3bn in revenue from the sale of the aluminium and steel plants. *Raymond Colitt*

Pulp group merger delayed

The US Justice Department has requested additional information on the proposed $3.6bn merger between James River and Fort Howard, the pulp and paper groups, which extends the waiting period for the deal under antitrust law, James River said yesterday. The Justice Department's request extends the waiting period until 20 days after the companies comply. James River and Fort Howard have begun collecting the requested information and intend to reply promptly, James River said. The merger would create the second largest manufacturer of tissue paper in the US. *Reuter, Richmond*

Alcatel, Hayes in modem link

Alcatel Alsthom, the French telecoms equipment group, said yesterday it had teamed with Hayes Microcomputer Products, the US modem maker, to develop high-speed internet access equipment. *Reuter, Atlanta*

Safeco pays $2.65bn for rival insurer

By Richard Waters in New York

Consolidation in the US insurance industry continued yesterday with the $2.65bn acquisition by Safeco of control of American States Financial from Lincoln National, in a deal that will allow the companies involved to pursue very different paths.

Lincoln National, an Indiana-based insurer, sold by auction its 83 per cent stake in American States, a property/casualty insurer. The disposal will bolster Lincoln's financial position and give it the resources to expand in life assurance, annuities and investment management.

For Seattle-based Safeco, the deal represents a drive to build a nationwide sales network for personal and commercial lines of property/casualty insurance, while also diluting its exposure to earthquakes on the West Coast.

The sale, for $2.35bn in cash, with a further $300m of intercompany debt to be repaid, will leave Lincoln with $2.15bn after tax, the company said. Some $500m of this will be used to re-purchase stock, with the remainder devoted to acquisitions. That makes it the largest in a series of moves by Lincoln to transform itself from a broad-based company with life, property/casualty and reinsurance operations into a more specialised financial services group.

It echoes the strategy of an increasing number of US insurers, including fast-growing companies like Sun America, which have turned away from their traditional insurance products to specialise in managing the wealth of the "Baby Boomer" generation.

Mr Ian Rolland, chairman and chief executive, said this was a business with "high growth potential and low earnings volatility."

Lincoln was interested in acquisitions which allowed it to reap efficiencies by reducing its unit costs, or which enabled it to extend its range of mutual fund products, he said.

The reshaping of the US property/casualty insurance business has also been driven by the high earthquake and hurricane losses of the 1990s, which have made insurers more alert to the potential risks they run, and a tough market that has made it difficult for companies to raise premiums.

Mr Bob Dickey, president and chief operating officer of Safeco, said the acquisition would help his company extend its reach away from the West and into Midwestern states. American States sells its products through 4,800 independent agents, compared to the 4,000-strong salesforce of Safeco.

By adding Safeco's homeowners' and car insurance policies, the company hoped to raise the productivity of American's agency force, he said. American would also bring experience in handling insurance for small companies - a part of the insurance market that could be more secure, Mr Dickey added.

Investors ride the rapids of internet stock

Online bookseller seen as 'one of the last free investor lunches' as shares slump after debut

A new term for failure has been added to the investment banker lexicon in Silicon Valley: Amazon.bombed.

Less than a month ago, Amazon.com, the on-line bookseller, became the first large company dedicated to internet retailing to go public. Its share price performance since has enabled rival bankers to enjoy a keen sense of *schadenfreude*.

It all looked a very different story on the company's first day of trading. Keen demand had prompted Deutsche Morgan Grenfell, the underwriters, to increase the size of the offer by 20 per cent. The shares then opened 63 per cent higher than the $18 offer price before closing at $23½.

Within a week, however, the shares had fallen below the offer price. They have since skulked at about this level even on days when the technology-driven Nasdaq composite index has enjoyed record-breaking gains.

The past two sessions have afforded the stock some respite as the market prepares for today's end to the quiet period which attends any US listing.

At mid-session yesterday it was up ¼ at $20. But with a typical premium for newly listed companies of between 10 and 15 per cent, the price performance of such a ground-breaker has been disappointing.

The reasons for the disappointment appear both unique to Amazon.com and relevant to other internet retailers which wish to list on the US market.

The group, set up just two years ago, already has a strong brand name. Since the beginning of 1996 it has doubled revenues in each quarter to $16m in the first three months of this year.

The lossmaking company has already invoked the ire of Barnes & Noble, the fast-growing physical bookstore in the US, which launched a lawsuit to stop the group's claims to be the "world's largest bookseller", offering more than 2.5m titles.

Such notoriety in a sector which typically excites keen interest led to some of the initial euphoria.

Mr Ryan Jacob, analyst at IPO Value Monitor, says: "The first day's performance didn't really surprise us. With all the hype, most people expected it to go at a large premium." What he found surprising was the scale of the following decline.

Part of this decline was blamed on the role of institutional investors.

"There were a lot of institutions wanting to go in and make a quick profit," said Mr Jacob.

Another broker described the listing of such "hot stocks" as the "one of the last free investor lunches".

Other analysts have pointed to some confusion surrounding the listing of the first pure internet retailer. Other listed groups earn money from varied sources or offer services as opposed to goods.

Mr Duff Anderson, managing director of equity capital markets at Donaldson, Lufkin & Jenrette, says, "There is some confusion in the marketplace about whether this is a technology company or an on-line bookseller".

While few analysts would value the groups in the same way, the issue of competition is an important one for the long-term performance of Amazon.com.

Soon after it went public Barnes & Noble announced a tie-up with America On-Line to provide more of its books on the internet.

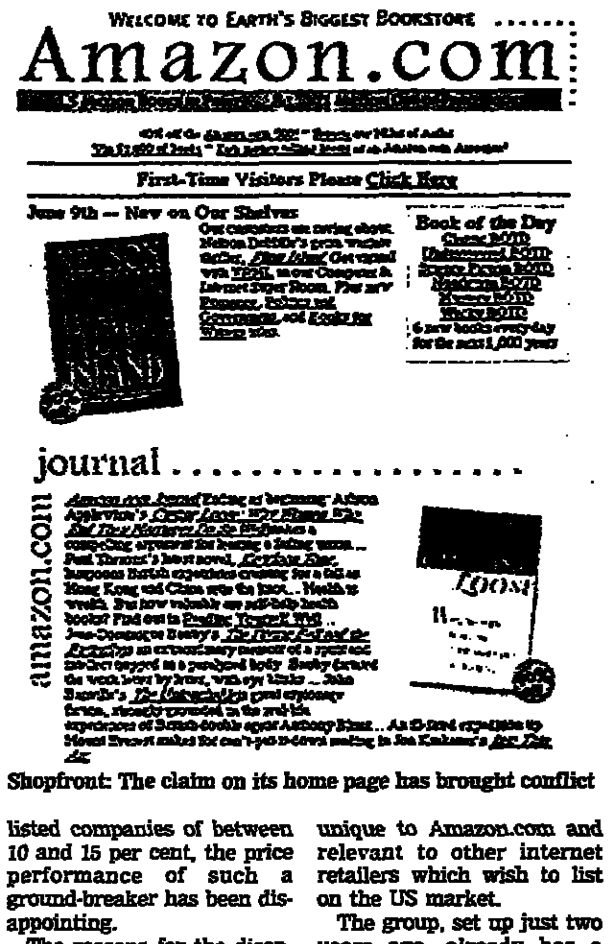
Ms Mary Meeker, analyst at Morgan Stanley, believes "we are about to see a mint-marketing battle, like a junior version of Coke vs Pepsi, in the little world of internet book selling". The outcome of this battle will have a far greater influence on the performance of Amazon.com's share price than the short-term factors which have been dominant so far.

Both IPO Value Monitor and Morgan Stanley believe that Amazon.com has many competitive advantages over its mainly terrestrial rivals. The chief one is that it started earlier and already has a strong brand name.

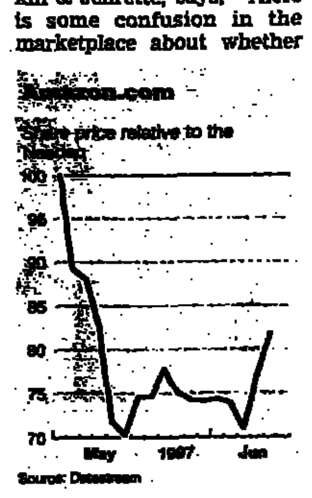
While it is too early to say what effect the company's performance will have on other potential offerings, there will continue to be keen interest in how Amazon.com performs over the next few quarters and how it weathers this increased competition.

The company then hopes that its name, prompted by the river which carries more water than any other, will not be taken in vain.

Jane Martinson



Shopfront: The claim on its home page has brought conflict



Source: Datastream

Sprint moves to ward off hostile takeover bids

By Richard Waters

Sprint, the third-biggest US long-distance telephone company, yesterday tightened the provisions of its "poison pill" arrangements to make it more difficult for an unsolicited bidder to build up a big stake in the company.

The move comes at a time of heightened interest in telecommunications acquisitions in the US, following reports two weeks ago that AT&T was discussing a merger with SBC Communications.

Such a deal between the country's biggest long distance and local telecommunications companies, if allowed to proceed by competition authorities, would break the mould in the world's biggest telecoms market and could spark a wave of similar deals.

Sprint, which has an international partnership with Deutsche Telekom and France Telecom, said its board had approved a change to the company's shareholder rights plan adopted in 1989.

This would allow a defence scheme to be triggered once a shareholder acquired more than 15 per cent of the company's stock. The earlier scheme came into effect when a holding topped 20 per cent.

Shareholder rights plans, which are common among US companies, act as a deterrent by allowing existing shareholders to buy stock at a big discount, thus diluting the interest of a hostile stake-builder.

Research suggests that companies with such plans are just as likely to be bought as companies without them, though the existence of a plan generally strengthens their hand in negotiating a higher price from buyers.

Sprint sought to play down the significance of the move, saying it echoed steps taken by many other companies in recent years.

Most shareholder rights plans have a 10-year life, meaning that companies that adopted them during the takeover wave of the late 1980s are now renewing them. However, the Sprint plan does not expire until 1999.

The company said of its new scheme: "The plan was not adopted in response to any specific threat to acquire control of Sprint, and the board is not aware of any such activity."

Cablevision, TCI in $1bn deal

By Christopher Parkes in Los Angeles

Wall Street yesterday greeted news of a link-up worth at least $1bn in the New York cable television market with strong demand for shares in Cablevision Systems and Tele-Communications Inc, the prospective partners.

Cablevision stock surged more than 20 per cent in morning trading, rising $7½ to $42⅝ on news of an agreement with TCI, which was trading 7 per cent higher at $16⅝.

The link-up will increase Cablevision's subscriber base in one of the country's richest metropolitan areas by almost 60 per cent.

The deal is the biggest yet in a series promised by Mr Leo Hindery, TCI's new president and chief operating officer, who plans to shed almost one-third of his group's $14bn debt.

It also marks an important step in the restructuring of the US cable industry, in which systems are being linked in regional clusters to improve operating efficiency and increase profits.

Under the agreement, Cablevision, the nation's sixth-largest operator, will take over TCI's 10 cable systems in the New York area, boosting its subscriber base in the region by 820,000.

The consideration, comprising $422.4m of new shares and the assumption of about $670m in TCI debt, will give TCI a 33 per cent stake in Cablevision and two seats on the board.

Mr Hindery said the deal, which followed the announcement last Friday of a smaller link with Adelphia in the west of New York state, was one of the most important of the series on his schedule.

"They will give TCI management and operational control over fewer cable systems, helping to focus our efforts on better serving communities and customers at the local level," he said.

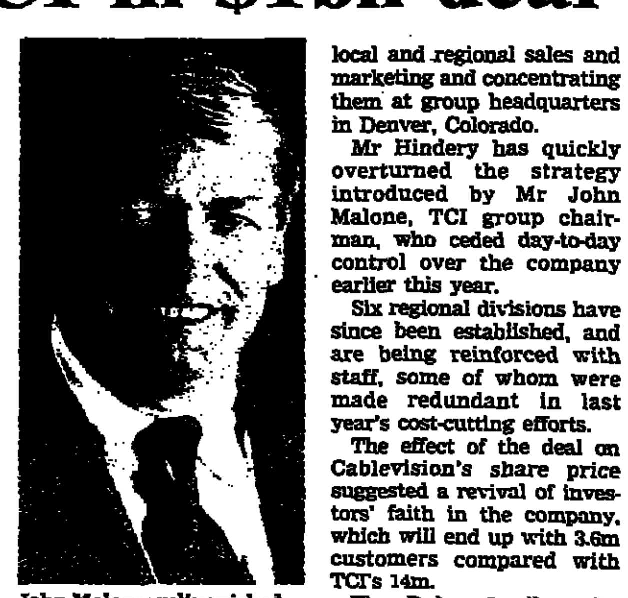
One of Mr Hindery's first moves in the TCI shake-out was to reverse a strategy introduced less than a year ago, which involved cutting local and regional sales and marketing and concentrating them at group headquarters in Denver, Colorado.

Mr Hindery has quickly overturned the strategy introduced by Mr John Malone, TCI group chairman, who ceded day-to-day control over the company earlier this year.

Six regional divisions have since been established, and are being reinforced with staff, some of whom were made redundant in last year's cost-cutting efforts.

The effect of the deal on Cablevision's share price suggested a revival of investors' faith in the company, which will end up with 3.6m customers compared with TCI's 14m.

The Dolan family, who founded the company and will maintain control, was recently criticised for an allegedly over-generous $765m deal with ITT which gave it full ownership of New York's Madison Square Garden sports operations.



John Malone: relinquished day-to-day control of TCI

Sony in pact to sponsor NBA

Sony Corp's US subsidiary said yesterday it had entered into a marketing pact with the National Basketball Association which makes Sony an "Official Sponsor" of the organisation, Reuter reports from New York.

Financial details of the deal - which was struck as the NBA's best-of-seven championship final between Utah Jazz and the Chicago Bulls was poised at two games all - were not disclosed. But it is likely to be worth several millions of dollars a year.

Sony called it an "expansive, multi-year alliance" and said it was the company's largest sports sponsorship deal to date. The NBA is one of the most popular sports leagues in the US.

Sony will have exclusive domestic promotion rights within the consumer electronics category, as well as additional rights which will benefit all participating Sony companies.

Sony said companies participating include Sony Pictures Entertainment, Sony Music Entertainment, Sony Computer Entertainment America and Sony Electronics. All are units of Sony Corp. Sony Computer Entertainment America makes the popular PlayStation video games machine.

Sony and the NBA will consider developing and distributing programming.

Sony will also have use of the NBA logo and related trademarks in promotional material as well as in national and regional promotions.

The link between Sony and the National Basketball Association will run at least until the year 2000.

PepsiCo calls on former chief

By Richard Tomkins in New York

PepsiCo, the US soft drinks and snacks company, has made a surprise decision to bring in a former president and chief operating officer to head its fast food restaurant business when it is spun off to shareholders later this year.

He is 72-year-old Mr Andrall Pearson, now a partner with the buy-out firm Clayton, Dubilier & Rice. The vice chairman and president of the yet-to-be-named company will be 44-year-old Mr David Novak, currently president and chief executive of Pizza Hut and KFC.

Mr Pearson left PepsiCo in 1984 after a 15-year spell, during most of which he was president and chief operating officer. He helped take the company into the restaurant business through his role in the acquisition of Pizza Hut in 1977 and Taco Bell in 1978. (KFC was added in 1986).

Recently PepsiCo's restaurant division has been struggling amid fierce competition in the US fast food market, and in January PepsiCo announced plans to spin it off to concentrate on its soft drinks operations - also struggling - and its successful salty snacks business.

In his new job, Mr Pearson will become head of a business with revenues of about $10bn a year. It has more outlets than any other restaurant company in the world, and is second only to McDonald's in annual sales.

Mr Pearson said: "I have been challenged by the notion that a business is mature and doesn't have much opportunity ever since I started at PepsiCo, when people told me that about soft drinks and snacks - and they have gone on to become $11bn businesses."

He said his top priority would be to restore same-store sales growth to the restaurants. "That is the key to success in this business. The obvious way to get there is through product news and product excitement. What isn't so obvious is how to implement that, to put in the programmes that change the excitement factor in your business."

Mr Pearson spent 16 years at McKinsey, the US management consultancy, before joining PepsiCo. Afterwards, he became a professor at Harvard Business School, then joined Clayton, Dubilier & Rice, where he has been running Alliant Food Services - the former Kraft food service subsidiary of Philip Morris.

Mr Roger Enrico, PepsiCo chairman and chief executive, described Mr Pearson as "a brilliant strategist" and said Mr Novak was "probably the brightest, most inspiring restaurant leader anywhere". "Together, they'll bring a vast wealth of intelligence, leadership and operating experience to this enterprise," he said.

Armstrong intervenes in flooring merger

By Richard Waters in New York and Graham Bowley in Frankfurt

Armstrong World Industries, a US manufacturing group, yesterday made an unsolicited bid in retaliation to a planned Franco-German alliance to create one of the world's biggest makers of flooring materials.

The US group said yesterday it had launched a C$488m ($353m) bid for Domco, the Canadian subsidiary of Sommer Allibert, the French plastics group.

Its intervention comes less than two weeks after Sommer Allibert announced a proposed DM1.36bn ($780m) merger of its flooring business with Tarkett of Germany, a world leader in flooring surfaces.

The deal involved the purchase by Tarkett of Sommer Allibert's flooring business. In return, Sommer Allibert agreed to buy 60 per cent of Tarkett through a public offer for the German group's 20.1m shares.

The move threatened to create an important competitor for Armstrong.

But Pennsylvania-based Armstrong, which makes floor coverings, ceiling materials and other internal furnishings, revealed yesterday that it had privately made a $775m offer for all of Sommer's flooring business in April – before the Tarkett and Sommer link-up.

The French company rejected that in late May, two days before announcing an agreement to sell the business to Tarkett and to take its 60 per cent stake in the German company.

Armstrong returned to the fray yesterday, offering to buy Sommer's 57 per cent-owned Canadian subsidiary, Domco, for C$488m.

To succeed with its spoiling bid, however, Armstrong would need either to win over the French company's own board with its rival proposal, or to bring enough pressure to bear through a group of minority shareholders in Canada to change the course of events.

The unsolicited bid seemed designed to attract minority holders in Domco, which is publicly traded in Canada. At C$23 in cash for each Domco share, the offer is pitched more than 50 per cent above the closing price last Friday.

Domco's minority shareholders would only benefit from the offer if at least two-thirds of the subsidiary's shares of the company are bought by Armstrong - a provision which makes it dependent on Sommer's support.

It remained unclear yesterday what Armstrong could do to derail the existing agreement between the French and German companies.

Tarkett, for its part, said that it expected its deal with Sommer to go ahead as planned.

EUROPEAN NEWS DIGEST

NordLB details BGB alliance

Norddeutsche Landesbank, one of Germany's larger regional state banks, said yesterday it expected the groundwork for an alliance with Bankgesellschaft Berlin (BGB) to be completed by the end of this year. This would enable the two institutions to begin joint operations next spring.

Mr Manfred Bodin, NordLB chairman, said a decision on the awarding of a contract for the evaluation of both banks, which have combined balance sheet assets of DM568bn ($328.5bn), was expected next week. An independent evaluation clearance for an alliance is also needed from the four states which own the two banks. NordLB is owned by the states of Lower Saxony, Mecklenburg-Vorpommern and Saxony-Anhalt. The City of Berlin owns the majority of BGB. The alliance involves NordLB being brought under BGB, which already owns three banks in Berlin operating in the retail, savings and mortgage sectors. NordLB's existing owners would take stakes in BGB and the newly-created institution would have its headquarters in both Hanover and Berlin.

NordLB's investment banking, foreign activities and large customer business operations would be transferred to BGB. Otherwise, Mr Bodin said, NordLB would remain a separate institution and continue to operate a local savings bank network as well as fulfilling its present role as regional government house bank.

In 1996, NordLB's balance sheet assets rose 9.9 per cent to DM229bn. Net interest income increased 3.1 per cent to DM1.88bn, while commission income increased 14.1 per cent to DM253m. Profits before provisions rose 4.9 per cent to DM842m.

Frederick Stüdemann, Hanover

Alpinvest looks to expand

Alpinvest Holding, the Dutch venture capital group due to be launched on the Amsterdam Stock Exchange tomorrow, is seeking expansion in underdeveloped European markets to tackle growing competition from banks and foreign groups. Lead manager ABN Amro has set the indicative price for Alpinvest's initial public offering at between Fl 26.50 and Fl 30, implying a market capitalisation of up to Fl 1.02bn ($525m).

Alpinvest last year reported net profits of Fl 88m. It specialises in medium-sized investments, management buy-outs and mezzanine finance.

In its preliminary prospectus, the company said it planned to cover the European Union through further alliances such as those with Candover in the UK and France's Alpha. Mr Stan Vermeulen, Alpinvest chairman, predicted that continental Europe's private equity market would grow by an annual 10-20 per cent in the coming years. "The current wave of restructurings, privatisations and spin-offs by large companies in several European countries creates an enormous market for us," he said.

Alpinvest was born from a merger between two smaller groups in 1991, and is still 30 per cent owned by the Dutch government. The state, however, will divest its stake through the IPO. ABN Amro, which holds 48.5 per cent of Alpinvest, wants to cut its stake to 25-33 per cent.

Mr Simon Barnasconi, of ABN Amro's equity markets unit in Amsterdam, said Alpinvest's European network made it "more or less unique". But Mr Roel Gooskens, analyst at Van Meer James Capel in Amsterdam, was more sceptical. "The current shareholders are probably selling because they feel that the market has gone over the hill," he said. "There is too much money floating around the European market and not enough investment opportunities."

Barbara Smit, Amsterdam

Usinor upbeat on second half

By David Owen in Paris

Usinor yesterday signalled better times for European steelmakers, predicting that its second half-profits would be "much higher" than a year ago.

The French group also cheered analysts by suggesting its first-half results would be only slightly lower than the FFr833m ($142.7m) in net attributable income earned in the first six months of 1996.

The shares surged to a year's high of FFr99.90 in early trading, before closing down FFr2.10, or 2.2 per cent, at FFr94. This compared with a 1.22 per cent decline in the benchmark CAC 40 index. However, at last night's close, the shares are still almost 11 per cent higher than they were a week ago.

Mr Francis Mer, chairman, said demand for steel was very firm and that although the recovery in prices had been gradual, a positive trend for most products had emerged over the past two months.

The Usinor chairman also indicated that the strength of the dollar, which had helped to make European steel prices lower than those elsewhere, would help the company to pursue new export opportunities.

He nonetheless warned that second-half earnings would not be as good as those for the first half of 1995, when the then recently privatised company reported net profits of FFr2.4bn.

Mr Terence Sinclair, a London-based analyst with Salomon Brothers, said the "simple boring fact" that the group was expecting a first-half result not far below 1996 levels was "very good news indeed", bearing in mind an approximately 10 per cent decline in average steel prices over the same period.

"They have compensated for that by cost savings that are quite extensive," he said.

However, Mr Mer was "always extremely bullish", he added. "Investors tend for that reason to apply a certain pinch of salt."

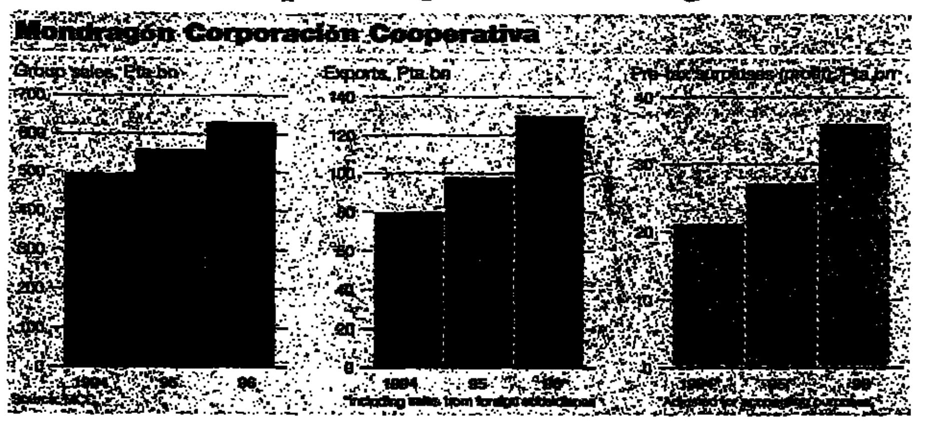
Mr Sinclair forecast that the second half should be "quite a corker", helping to take full-year profits to about FFr2.25bn, against net income of FFr1.5bn, or FFr6.12 a share, in 1996.

The company remains keen to invest in Corporación Siderúrgica, of Spain. Mr Mer has said in the past that, if the Spanish government confirmed its intention to privatise, Usinor would seek to play a role that satisfied both its and the Spanish company's interests.

Mr Mer also announced the company was shortening its name from Usinor Sacilor to Usinor. He pledged that the Sacilor "culture" would be maintained, with the group's new logo being "a very clear graphic interpretation" of the old Sacilor logo.

Mondragón helps itself to success

The Spanish co-operative is expanding abroad along orthodox commercial lines



The Mondragón group of co-operatives, based in the wooded valleys of the Spanish Basque country, is a doubly rare phenomenon. For decades it has stood out as a successful example of industrial worker-ownership. Now it is evolving as something almost equally uncommon: a Spanish manufacturing multinational.

But the two sides of the group – on the one hand its home-grown cluster of member-owned companies, complete with education and welfare facilities, on the other a string of ventures from Mexico to Morocco and from China to the Czech Republic – are run along different lines.

In the Basque region the group has remained faithful to its original approach, with a relatively egalitarian structure in which the highest paid receives six times the salary of the lowest.

Abroad, it functions as an orthodox company, working mostly with local business partners, engaging staff on standard employment terms and taking advantage of low labour costs. Executives sent out to the foreign ventures, while maintaining their co-operative membership, receive salary packages in keeping with international competitors.

Of the 32,400 people working in the group, more than a third are non-co-operative employees. Admirers of the Mondragón model might regard this with dismay, but managers see foreign expansion as evidence of the practical sense that has underpinned the success of what is Spain's 10th largest company in terms of sales, with expected turnover of Pta717bn ($4.9bn) this year.

Founded by pupils of a technical school set up by a priest, the group consists of about 100 financial, manufacturing, commercial, research and training co-operatives, headed by a central administrative body, Mondragón Corporación Cooperativa (MCC).

It includes the Fagor brand of household equipment, a range of industrial activities, a growing retail division, banking and insurance.

Sales last year totalled Pta630bn, of which Pta180bn was generated by exports and foreign-based operations. Turnover of its industrial division rose 16 per cent to Pta292bn, with 44 per cent coming from abroad, compared with 35 per cent two years earlier. In the first quarter of this year this proportion grew to 46.5 per cent.

Its foreign investment has gathered pace since 1989, when the group set up a joint venture in Mexico to supply barbecue components for the US market in response to an adverse peseta-US dollar exchange rate which was damaging its export business from Spain.

This was followed by semiconductors in Thailand, computer systems in France, coaches in China, washing machines and gas boilers in Egypt, components in the Netherlands and refrigerators in Morocco.

Since last year, the group has added a controlling stake in the Argentine refrigerator company McLean, with three plants; a second joint venture by its Irizar coach-building unit in Morocco; a Chinese automation project and a foothold in central Europe through Zerco, a Czech components subsidiary.

Its Eroski distribution arm, which grew out of a consumer co-operative, has become the only Spanish food retailer to establish a presence in France, where it runs three hypermarkets and 17 supermarkets with the French company Promodès. It is now looking for a partner to create a Spain-based group of international dimensions in response to the trend towards concentration in the European retail sector.

It aims to boost total sales to Pta1,100bn by 2000, investing some Pta214bn and creating 8,800 jobs. Up to half, according to Mr Antonio Cancelo, MCC chairman, may be outside its home Basque region and neighbouring Navarre.

The group has spent several years considering a scheme to channel stock market funds into existing co-operatives and new business ventures, but Mr Cancelo says the plans are still "not ripe".

Its financial muscle has been boosted by rising profits, which Mr Cancelo attributes mainly to improved group management.

Pre-tax "surpluses" rose 33 per cent last year to Pta35.89bn. The bulk – Pta25.63bn – goes to strengthening reserves; the remainder is earmarked for tax, an education and promotion fund, and the equivalent of dividends, paid into accounts which employee-members set up when they join.

Managers admit that investment outside Spain caused some initial "perplexity" among co-operative members, but see the volume of foreign-generated sales multiplying over the next few years.

They also argue that their co-operative system cannot easily be transplanted, partly because it grew organically in a particular society at a particular period. "We are not even sure it would have worked if it had started in Spain today rather than back in the 1950s," says one.

David White

New saloon seen as crucial to Saab's survival

By Greg McIvor in Stockholm

Saab, the struggling Swedish carmaker managed and half-owned by General Motors of the US, yesterday launched its new top-of-the-range 9-5 saloon, in a renewed attempt to restore its operations to long-term profitability.

The success of the new model has been billed as essential if Saab is finally to emerge from a run of debilitating losses which have kept it in the red for seven of the past nine years.

The car, unveiled to the media yesterday at the group's headquarters in Trollhättan, will enter the market in August or September. It will be sold alongside and ultimately replace Saab's 12-year-old 9000 model.

Saab forecast that the 9-5 would account for 8-10 per cent of this year's sales – expected to top 100,000. The goal is for Saab's annual sales to reach 150,000 units by 2000, with the 9-5 accounting for half of this.

Saab's retail car sales fell to 98,000 cars last year, a figure seen as far short of the volume needed to survive in the highly competitive international motor industry.

Mr Philip Ayton, motor analyst at BZW in London, said the 9-5 was "utterly crucial" to Saab's survival. The most important factor, he said, was that Saab was able to hold prices at premium levels in order to generate adequate margins.

"The car looks okay but not exceptional. Unfortunately, that is likely to mean that price packaging will become very important," he said.

GM and Investor, the main investment vehicle of Sweden's Wallenberg family, which has a 50 per cent stake in Saab, have pumped SKr11.5bn ($1.48bn) into the company since 1989. In this time Saab has racked up SKr10bn in accumulated net losses.

Mr Bob Hendry, the GM executive brought in last year to turn Saab around, said the company would return to profit in the fourth quarter of next year and make a full-year profit in 1999.

Saab has invested heavily in pre-launch testing and quality control measures to ensure the 9-5 is not prone to the multitude of small faults which plagued early versions of the remodelled 900 mid-sized car after its launch in 1993.

Investor anger hits Italian telecoms shares

By Paul Betts in Milan

Shares in Stet and Telecom Italia, the two Italian telecoms groups to be merged and privatised this year, yesterday fell sharply as investors reacted angrily to the Treasury's decision not to convert their savings shares into ordinary voting shares.

Stet and Telecom Italia savings shares both fell by about 15 per cent on the Milan bourse in hectic trading, with the stock repeatedly suspended because of excessive sell orders.

At one stage, the savings – or non-voting – shares lost as much as 18 per cent, with Stet trading at L5,600 and Telecom Italia falling to a low of L3,100. Stet closed at L5,676 and Telecom Italia at L3,232.

The falls in the savings shares also dragged down Stet and Telecom Italia ordinary shares, which lost nearly 2 per cent during the day. However, they recovered later to close at L8,546, up L22, and L4,637, up L13, respectively.

The violent market reaction reflected investors' anger at having been wrong-footed over whether the savings shares could be converted into ordinary shares at the time of the merger.

Savings shares, which carry a higher dividend yield, have traditionally traded at a discount to ordinary voting shares in Italy. Conversion would have provided investors with an attractive gain.

The Treasury has never indicated it would approve conversion, but most investors assumed it would stick to the policy it adopted on the earlier privatisations of Banca Commerciale Italiana and Credito Italiano.

Some institutional investors yesterday blamed the Treasury for failing to say it was not considering conversion for the Stet and Telecom Italia savings shares. However, other market players said investors had simply speculated wrongly and been caught off-guard by the Treasury.

Stet and Telecom Italia are due to merge in the coming weeks as a first step in the privatisation of the new Telecom Italia group later this year. The process includes the exchange of Stet and Telecom Italia shares for new Telecom Italia ordinary and savings shares.

The Treasury's decision not to convert the savings shares into ordinary shares appears to have been prompted by the fact that conversion would have further diluted the Treasury's stake in the merged telecoms group.

The merger will already see the Treasury's stake fall to 41.7 per cent, and conversion would have further diluted its stake, to about 32 per cent.

The centre-left administration of Mr Romano Prodi has faced strong political opposition over the Stet-Telecom Italia privatisation and won support for the sell-off from the Refounded Communists – on whose support the government relies – only after agreeing to introduce a "golden share" giving it a veto on important decisions.

Tag Heuer rejigs board

By William Hall in Zurich

Mr Robert Louis-Dreyfus, who masterminded the stock market flotation of Adidas, the German sportswear company, is to take over as chairman of Tag Heuer, the Swiss watch company whose shares have underperformed the stock market since its autumn flotation.

Mr Louis-Dreyfus, 51, former chief executive of Saatchi & Saatchi, the UK advertising agency, replaces Mr Richard Hanson, 40, an executive with Doughty Hanson, the UK venture capital firm and Tag Heuer's biggest shareholder at the time of September's SFr614m ($423m) initial public offering.

Mr Hanson remains a member of the board, but Mr Nigel Doughty, Doughty Hanson chief executive, and Mr Ken Terry, a partner in Doughty Hanson, have resigned.

Mr Claude Frey, 54, a Swiss member of parliament from Neuchatel, home of Tag Heuer's headquarters, has also been appointed a director. The company is also looking for a financial figure to strengthen its board.

Doughty Hanson, one of the more secretive venture capitalist firms, Salomon Brothers and SBC Warburg – the global co-ordinators for the issue – were criticised for rushing through one of the biggest IPOs in Swiss history without properly preparing Tag Heuer.

The presence of Mr Hanson as chairman led to some investor concerns about possible conflicts of interest, as Doughty Hanson sold a substantial number of shares in the IPO.

Mr Christian Viros, Tag Heuer chief executive, said yesterday the company had not had enough time to appoint outside directors to its board before the IPO, which had been pushed through "at the behest of Doughty Hanson".

Tag Heuer's shares, which were priced at SFr245, fell sharply after the IPO. They have fallen 8 per cent this year, despite a rise of more than one third in the Swiss stock market. Yesterday, they rose SFr1 to SFr200.

Mr Louis-Dreyfus, who has overseen a remarkable turnround in the fortunes of Adidas, is not expected to become a big shareholder in Tag Heuer.

Stet and OTE secure Serbian deal

By Guy Dinmore in Belgrade and Kerin Hope in Athens

Serbia yesterday clinched its biggest foreign investment deal by selling 49 per cent of state-owned Telecom Serbia to Stet, the Italian telecoms group, and OTE, the Greek telecoms group, for DM1.568bn ($907m).

Officials said Stet would take 29 per cent and OTE 20 per cent, with an option for the Greek state-controlled operator to buy a further 4 per cent from Stet.

The Serbian government will hand over day-to-day management of Telecom Serbia but retain a "golden share", giving it a veto over important decisions. Stet said it would hold what it called a "sub-golden share", giving it the casting vote on the board of governors.

For the socialist government of Serbia's President Slobodan Milosevic, the deal provides much-needed cash for the debt-laden economy. Local analysts said part of the money would be used to meet several months of unpaid wages owed to public sector workers. Serbia faces parliamentary and presidential elections this year and needs an injection of money to avert industrial unrest, they said.

Stet and OTE are to pay 80 per cent of the DM1.568bn immediately after signing the contract and the rest by early next year.

As part of the deal, Stet and OTE will have an eight-year monopoly on fixed telephone systems and a 20-year GSM mobile telephony licence, valued at DM125m, in what would be Serbia's second cellular network.

AP

President Milosevic with Stet's Tomaso Tomassi di Vignano (centre) and OTE's Demetrios Papulias (right) yesterday

Serbia's BK group, which was granted a 20-year exclusive right over mobile telephones in an earlier deal with the Serbian PTT, has threatened court action over what it sees as a breach of contract.

Yesterday's signing represents a breakthrough for Stet in eastern Europe after its failure in open tenders to buy into Czech and Hungarian telecoms operators.

The deal marks OTE's first strategic alliance outside Greece and reflects close political and economic ties between Greece and Serbia. The Greek operator is keen to expand into south-eastern Europe, but acknowledges it lacks the management experience to enter foreign markets without a western European partner.

A senior OTE official said the Serbian telecoms market offered "tremendous potential for growth as the economy recovers, because only 5 per cent of the network has been digitalised so far".

Stet plans to double the number of lines to more than 4m and replace 1m existing lines by 2006. By that time revenues are forecast to have tripled and profits to have doubled.

According to official figures, Serbia's PTT, which includes Telecom Serbia and the loss-making postal division, achieved a profit of $25.2m in 1995. Independent economists warned that the figures were unaudited.

The Serbian side was advised by NatWest Markets; Stet by UBS; and OTE by BZW and Ionian Finance.

Change of heart at Crédit Foncier

A stark, modern glass table has been installed in the middle of the classically-furnished office of the head of Crédit Foncier de France, the specialist property lending institution.

It is one of the more superficial changes since Mr Jérôme Meyssonnier was appointed "governor" by the state at the start of last year to take charge of an institution on the brink of collapse.

After a programme of cost-cutting and diversification over the last few months, Crédit Foncier has finalised a 70-page information memorandum to be sent to prospective investors or acquirers. It just requires approval from ministers – a process which has been delayed by the change of government.

The new plans seem far removed from the crisis precipitated in late 1995 by the government's decision to cancel its PAP low-income housing loan programme, which had provided the lifeblood of Crédit Foncier.

That led to a sharp drop in the group's credit ratings, a funding crisis, and the appointment of Mr Meyssonnier, who made provisions which dragged the bank into losses of FFr10.8bn ($1.85bn) for 1995, wiping out shareholders' funds.

Last summer there was an unprecedented state takeover of Crédit Foncier – a quoted company but with top directors appointed by the state – and at the start of the year Mr Meyssonnier was held in his office for a week by employees afraid that they would shortly be out of jobs.

Many former and present executives, as well as more junior staff, are convinced that the government wanted simply to shut Crédit Foncier. Certainly, the government appeared unreceptive to buyers, and Mr Meyssonnier made no secret of his opposition to its proposed alternative – to transfer many of Crédit Foncier's activities to a rival mutualist home-loan organisation, Crédit Immobilier de France.

But there appears to have been a change of heart by the state. Deutsche Morgan Grenfell, the investment bank, has been hired to help work on restructuring and survival plans.

Mr Meyssonnier says he is now working "hand in hand" with the state to find new shareholders, and that "four or five" potential buyers have already asked for the memorandum.

He stresses that the group is in line with its business plan to develop profitable business, to sell assets, reduce costs and to shed non-essential activities.

He adds that all options – including a single investor, or several different shareholders working together – are open to consideration, and stresses that the decision lies with the state, as the controlling shareholder.

Price, he suggests, will not be a decisive factor. He argues there needs to be a capital injection of FFr2.5bn-FFr3bn to raise Crédit Foncier's solvency ratio to international norms. A further FFr2.5bn – plus a commission of perhaps 4 per cent interest on this – will be needed to compensate the Caisse des Dépôts, the state-controlled institution which funded the takeover last year.

To pay any more would enrage shareholders, who received just FFr70 a share during the takeover after watching the value of their investment fall more than fourfold over the previous few months. Instead, Mr Meyssonnier wants to see the choice of a buyer for Crédit Foncier made on the basis of the strategic plan for the future of the bank.

He remains particularly attached to several areas of activity, including housing loans; property valuations; and management of high quality buildings.

A competitor argues more harshly: "If you buy Crédit Foncier, you buy problems."

The next few months should reveal who is right – and whether Mr Meyssonnier has been able to do more than rearrange the furniture in his effort to create an institution of interest to potential investors.

Andrew Jack

EUROPEAN NEWS DIGEST

EDS and FNB sign R1.5bn deal

EDS, the US computer resources company, has signed a 10-year deal to take over the cheque processing and back-office book-keeping of First National Bank of South Africa. The R1.5bn ($335m) contract is the largest outsourcing deal yet signed in South Africa and signals a new trend among the country's banks of transferring day-to-day, generic banking activities to specialists.

It follows a decision in September by Standard Bank to appoint EDS to run its credit card operations in a deal worth R1bn. Sage, the insurance group, has signed a similar contract, due to be announced this week, outsourcing management of its information technology to EDS. The trend is driven by competition among South African banks, which are vying to reduce costs to below 60 per cent of operating income by 2000.

Mr Viv Bartlett, FNB managing director, said the deal was "a dramatic step" which would enable the bank to focus on core activities. "In modern banking, certain systems and processes are critical but not strategic. Cheque processing is a factory operation," he said. About 550 FNB staff will be transferred to EDS as part of the deal which – as with the Standard Bank contract – guarantees job security for the bank's staff.

Outsourcing is gaining popularity among South African corporates as a means of improving the antiquated systems, poor service standards and overstaffing that are a legacy of the country's isolation. In the past two years, EDS had signed more such deals in South Africa than anywhere else the group operates. "We buy the legacy, we buy out the costs, take them over and rebuild these operations in EDS. The changing of the staff culture is our responsibility," said Mr James Fitzgerald, managing director of EDS Africa. *Mark Ashurst, Johannesburg*

Kemira operating profit falls

Kemira, the Finnish chemicals group, yesterday announced a sharp fall in operating profit for the first four months of this year, despite increased sales. The group said three of its four divisions had been hit by falling prices for some products.

Kemira made a profit of FM473m ($91m) on sales of FM5.129bn, compared with a profit for January to April last year of FM626m on sales of FM4.825bn. Earnings per share fell from FM2.8 to FM2. The pigments division suffered most. It incurred a loss of FM48m, compared with a profit of FM22m. Kemira blamed the decline on the continuing low price of the white pigment titanium dioxide. But profits for the chemicals and fertiliser businesses also declined, falling FM18m and FM119m respectively to FM132m and FM343m. Kemira said the price of hydrogen peroxide, manufactured by the chemicals division, was about a third below the level of the same time last year. Only Tikkurila, the colour processing unit, showed improved results. Its operating profit increased FM39m to FM60m.

Although the company said its full-year result would be "good, but below last year's record level", one analyst sounded a more sceptical note. "All in all, I wouldn't have said the outlook for Kemira looks very bright at this stage," said Mr Lucas Herrmann, a chemicals analyst for NatWest Securities. *Michael Peel, London*

Retevisión bids down to two

Germany's Mannesmann yesterday narrowed the field of potential purchasers of Retevisión, Spain's second telecoms operator, to two groups when it failed to deliver a bid for the company. One group is led by Banco Central Hispano (BCH), the big domestic retail bank, and is backed by France Telecom and Sprint of the US. The other is jointly led by Italy's Stet and Endesa, the state-controlled power group and Spain's dominant electricity generator.

The competing sealed cash bids for Retevisión, which is due to commence competing with Telefónica, the national operator, before the end of this year, are due to be disclosed today. The winner of the tender for will be announced within two months, after the board appointed by the government to rule on the second operator has examined the investment strategies and technology commitments of Retevisión's potential buyers.

The government has invited bids for 60 per cent of Retevisión with a minimum price of Pta45.6bn ($312.3m) and the purchaser will subsequently underwrite a capital increase that will take its shareholding up to 70 per cent. Over the next five years Retevisión, which at present transmits TV signals, is due to invest at least Pta200bn to develop nationwide fixed telephony services. *Tom Burns, Madrid*

Gazprom's second ADS issue

Gazprom is to offer a second round of American Depositary Shares in early 1998, according to Mr Eduard Ivanov, head of the Russian gas company's securities operation. The offering, which follows moves to stamp out the Moscow "grey market" in shares for foreign buyers, gives foreign investors a link to underlying Gazprom shares. Foreign ownership of Gazprom is limited to 9 per cent of its equity. In its first ADS last November, Gazprom also became the first Russian company to be listed on an international exchange. The gas giant is to issue an estimated $1bn in international bonds late this year or in early 1998. Its ADS shares were issued at $15.75 last October. *Edward Luce, London*

Unigate seeks acquisitions

By Alison Maitland

Unigate is looking for further acquisitions after completing its reshaping as a fresh food and distribution group, reducing its dependence on milk and dairy products.

Unveiling a slightly better than expected 3.4 per cent rise in annual pre-tax profits before exceptional items to £129.6m ($211.2m), Mr Ian Martin, chairman, said the group was interested in businesses in the UK and abroad.

The group had net cash of nearly £188m on March 31, up from £171m a year earlier. The restructuring of the group since 1990 has involved about £1bn of acquisitions and disposals. So far it has not made a purchase of more than £150m.

Meanwhile, a sale of the dairy business was not ruled out. Margins are under heavy pressure from falling butter and milk powder prices and competition in supermarket milk sales.

But Mr Ross Buckland, chief executive, said dairy was still important. "We have a valuable business that over time we believe will become more valuable."

Mr Michael Bourke, food analyst at Panmure Gordon, said: "It's all a question of price. The dairy business is not a sacred cow."

Mr Buckland said fresh foods now contributed 51 per cent of group profits, compared with 16 per cent five years ago. Unigate spent £101m on food acquisitions during the year, including the £79m purchase of Kraft's European margarine and spreads business.

Strong growth from fresh foods offset a slump in dairy profits to leave pre-exceptional profits from continuing operations 16 per cent higher at £124.8m, on sales up 13 per cent to £2.4bn.

Sales at the Malton pigmeat business nearly doubled to £706m, following acquisitions. Underlying sales grew 26 per cent, thanks to extra capacity.

The dairy business was hit by a £12m shortfall from lower European butter and milk powder prices, exacerbated by the strong pound.

Breakaway sales lift Eurocamp

By Tim Burt

Rising sales of short break holidays and steady bookings for camping destinations in France helped Eurocamp to announce reduced first-half losses yesterday.

The package holiday company, which traditionally makes all its profits in the second half, said pre-tax losses had fallen from £5.2m ($8.47m) to £4.66m on increased sales of £16.6m (£14.7m) in the six months to April 30.

Mr Richard Atkinson, chief executive, said the losses had been contained by a 12 per cent increase in sales of its Superbreak and Goldenrail hotel breaks, while occupancy at campsites had risen 7 per cent.

Although he declined to reveal the exact sales figures for either the short breaks or camping businesses, Mr Atkinson said the prospects for the current year were encouraging compared with the flat performance last time.

Industry analysts believe the strengthening pound and tighter financial controls could help lift pre-tax profits to about £11m this year, against £9.27m for the 12 months to October 31.

The group has reduced the number of campsites from 315 to 252 in an attempt to match capacity more closely to demand, and has cut commission costs by switching from multiple travel agencies to independent agents.

It has also begun seeking a possible third leg to offset the cyclicality of the camping and short break markets.

Some analysts, however, claim the company's relatively weak balance sheet makes an acquisition unlikely in the short term.

Eurocamp spent a total of £21m on Superbreak two years ago and last year acquired its German and Dutch agencies for £10m.

That left the group with borrowings of £14m and net liabilities of £1.3m at the end of the first half. Year end borrowings are expected to fall to about £4m, equivalent to gearing of 65-70 per cent.

Ashley Ashwood

Richard Atkinson (left) and Angus Crichton-Miller, chairman of Eurocamp, said prospects were promising

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Acal	Yr to Mar 31	149	(136.8)	9.77¶	(10.2)	30.7	(30.1)	‡	-	5.85	9.56	8.4
Amberley	Yr to Mar 31	44.8	(22.9)	5.03	(3.03)	5.49†	(4.2)	1.2	Oct 1	1.1	1.6	1.4
BAA	Yr to Mar 31	1,373	(1,253)	407♦	(418¶)	28.4	(30.4)	7.9	Aug 19	7.125	12.4	11.25
Critchley	Yr to Mar 31	45.8	(43.3)	8.52	(7.13)	36.2†	(33.94)	8.5	July 29	7.35	12.5	10.85
Cropper (James)	Yr to Mar 29	59.3	(57.6)	5	(1.25)	36.2	(13.7)	3.4	Aug 15	2.8	3.9	4.7
Delancey Estates	Yr to Mar 31	8.88	(2.35)	1.23	(0.12)	5.1†	(0.5)	1.55	July 29	0.75	1.55	1.5
Electrocomponents	Yr to Mar 31	605.8	(559.3)	112.4	(98.2)	17.7	(15.8)	5.3	Aug 11	4.6	7.7	6.6
Electronic Data	6 mths to Mar 31	6.49	(7.89)	0.8	(1.5)	2.01	(3.93)	0.667	Aug 4	0.667	-	2.2
Eurocamp	6 mths to Apr 30	16.5	(14.7)	4.66L	(5.2L)	8.9L	(10.5L)	3.75	July 27	3.75	-	11
Field	Yr to Mar 30	217.9	(201)	21.4	(18.2)	27.4	(24.2)	8.3	Sept 25	5.7	9.4	8.5
GB Railways	6 mths to Mar 31	20.6	(-)	0.4¶	(-)	3	(-)	-	-	-	-	-
Henderson	Yr to Mar 31	74.7	(70.4)	20.8	(20.2)	85.14	(82.18)	31.5§	July 1	31.5	45	45
Howie	6 mths to Mar 31‡	4.53	(-)	0.342	(-)	1.04	(-)	-	-	-	-	-
Hyder	Yr to Mar 31	1,140	(651.6)	208.2	(112.94)	118.8†	(88.8)	29.3	Oct 6	26.1	43.8	38.7
Ideal Hardware	Yr to May 3	172.7	(138.2)	9.81	(7.84)	29.93	(24.7)	8§	July 28	6.6	13.2	10.8
Oriflame Intl	Yr to Mar 31	91.3	(90.8)	21.4	(19.9)	32.4	(30)	10.2	Sept 24	10	15.7	15
Renold	Yr to Mar 28	180.3	(178.3)	21.5	(18.7)	22.7	(20.8)	5.2	Aug 7	4.5	8‡	7‡
[illegible]	Yr to Mar 31	40.1	(31.4)	2.7	(2.27)	6.39†	(5.84)	1.25	-	nil	2.18	0.9
Salvesen (Christn)	Yr to Mar 31	746.3	(700)	85.9¶	(77.8)	19.4	(18.3)	5.35	Aug 5	8.15	9.15	8.85
Sira ♦	Yr to Apr 30	6.88	(3.18)	0.882	(0.274)	0.221†	(0.104)	0.031	July 10	-	0.053	0.026
Treatt	6 mths to Mar 31	10.7	(15.9)	0.267♦	(1.3)	1.85†	(8.19)	1.9	Oct 3	1.9	-	5.7
Umeco	Yr to Mar 31	28.61	(20.35)	2.52♦	(1.85)	15.5†	(11.5)	3.7	Aug 14	3	5.5	4.25
Unidare ‡	6 mths to Mar 31	58.8	(67.8)	3.02	(3)	10.7	(10.47)	4.6	July 30	4.6	-	16.86
Unigate	Yr to Mar 31	2,414	(2,134)	116.2♦	(200¶)	37.2	(113.2)	13.2	Aug 5	12.55	20.2	19.2
Walker Crips Wed	Yr to Apr 4	8.43	(6.45)	0.809	(0.589)	7.1†	(6.5)	2	July 14	2‡	3.25	3‡

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Johnson Fry Utils	Yr to July 31	-	(-)	-	(-)	-	(-)	1.85★	July 15	1.78	-	7.94

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♦After exceptional charge. ¶After exceptional credit. †On increased capital. ‡Second interim of 6.4p in lieu of final already paid. #Adjusted for rights issue. §Second interim. ✦Pro forma. ‡Contains foreign income dividend element. ♦Aim stock. ‡Irish currency. ★Third interim, making 5.55p so far.

Mister Minit bought by UBS Capital

By Charis Gresser

A publicity-shy American is set to receive a multi-million dollar payment from selling the world's largest shoe repair and key-cutting business to the UBS banking group.

The sale price for the Mister Minit group was not disclosed yesterday, but the company reported sales of £300m ($489m) in 1996. Its profits have not been disclosed.

Mr Donald Hillsdon Ryan, believed to be in his early 70s, started the group in 1957, when he could not find a shop to repair his wife's stilettos.

The group has its headquarters in Belgium, where Mr Hillsdon Ryan had been working for Procter & Gamble. Mister Minit operates through 3,800 shops in 26 countries, including most of Europe and the Far East.

The business is being bought by the private equity arm of UBS, UBS Capital.

Mr Ian Siddall, executive director at UBS, and Mr Edwin Richards, UBS director, will join the Mister Minit board as non-executive directors. Mr Siddall will chair the business in the short term. In addition to a chairman, the company will seek a new chief executive.

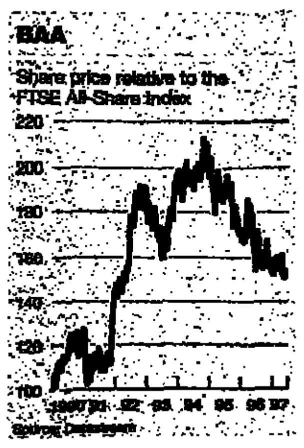
UBS hopes to float the company in three to five years, with a listing in Amsterdam or London. It plans to streamline the operating divisions of the company and simplify its legal structure.

Services, such as personalising gifts with engravings or embroidering, will be expanded, Mr Siddall said. The company's watch repair service might also be developed. Mister Minit also processes photographs and retails travel goods.

"Mister Minit has a unique, global market position which is under-pinned by strong operating management and an exceptional portfolio of shop locations," said Mr Siddall, who added he had been learning all about shoe repairs recently and believed it to be "quite a skilled art".

LEX COMMENT

BAA



BAA is a pretty good airport operator, and not a bad political operator either. The timely accounting change in yesterday's results, which conveniently depresses earnings at a politically tender moment, is a case in point. So are clear signs of the cushy deal the company recently extracted from its regulator. Passenger numbers are growing faster than the Monopolies and Mergers Commission assumed; so is retail income per passenger. As a result the company stands a strong chance of delivering the healthy earnings growth the market expects.

But look further out and there is a snag. The MMC's purpose was gradually to cut BAA's returns back to its cost of capital – between 6.4 and 8.3 per cent. Yet the market is assuming returns will remain around 10-11 per cent. In the short term, it may well be right. But there are two obvious risks. The lesser is that the government could take an interest in such a stark case of surplus profits. The greater is that, come the next regulatory review, the MMC finally delivers on its promise to prune returns right down. Even if BAA's capital base were by then about £7bn in today's prices, the MMC's suggested 6.7 per cent return for the next regulatory period implies operating profits not much greater in real terms than they are today. Of course, given BAA's record of skilful regulatory fencing, such an outcome is no certainty. But investors can hardly complain if the market starts to fret about the risk.

Oriflame plans overseas focus

By Virginia Marsh

Oriflame International, the Sweden-based door-to-door cosmetics group, said yesterday it expected that India and Brazil, where it had just started sales, would become its largest markets in terms of turnover and profits.

Mr Robert af Jochnick, chairman, said sales were going so well in India that the company would have to decide within six months whether to proceed with a £15m ($24.5m) greenfield plant there.

It had already spent £4m over four years establishing itself in the country and setting up a distribution network. Nationwide sales began last December and the venture would contribute to group profits this year.

Oriflame – which decided to focus on the Indian market in the early 1990s when its competitors were expanding into China – claims to be the country's first foreign direct seller. It is being followed into the market by Avon and Revlon.

Mr af Jochnick said sales had begun in March in Brazil and would also start in Colombia, Egypt, Morocco and Sri Lanka this year.

The expansion had wiped £2.5m off last year's operating profits, which were flat at £15.9m. Gearing remained at 5.8 per cent.

Pre-tax profits rose 7.5 per cent to £21.4m (£19.9m), on sales up slightly at £91.3m (£90.8m).

Unilever sells Nordsee chain

By Ross Tieman

Unilever yesterday sold its German and Austrian fish restaurants and fish wholesale operation to Apax Partners, the venture capital fund, for an undisclosed sum.

The disposal is part of a reshaping by co-chairmen, Mr Niall Fitzgerald and Mr Morris Tabaksblatt, to focus the Anglo-Dutch foods and household products group on businesses that can be developed worldwide.

The sale of Nordsee, with annual sales last year of DM1.1bn ($630bn), follows an agreement to sell the group's speciality chemicals manufacturing operation to Imperial Chemical Industries for $8bn.

Nordsee is the second largest fast-food chain in Germany, with 276 restaurants, and a further 31 outlets in Austria. More than half the restaurants have an associated shop selling fresh fish and seafood products.

These outlets are underpinned by a wholesale business which generates about half of Nordsee sales. Operating from 31 depots in Germany and three in Austria, Nordsee wholesale supplies fresh fish to retailers, hotels, restaurants and institutional caterers.

Unilever declined to reveal the price paid for Nordsee, but Apax Partners is understood to be providing about DM500m to purchase the business and ensure it has adequate working capital.

Christian Salvesen advances 7%

By Charis Gresser

Mr Chris Masters, chief executive of the logistics and specialist hire group Christian Salvesen, said he still believed his board was justified in refusing to recommend Hay's takeover proposal of 390p a share last August.

Since then, Christian Salvesen shares have slumped 42 per cent. They were unchanged yesterday at 236½p, as the company unveiled a 7.4 per cent rise in annual profits before tax and exceptionals to £83.4m ($135.94) on turnover of £746.3m (£700m).

The company's strategy to demerge its specialist plant business, Aggreko from the company's logistics business, would, Mr Masters said, deliver "superior value" to shareholders and should be complete by September.

Analysts were deeply critical of the company's rejection of Hay's approach, however, and expressed some scepticism over whether the demerger would actually boost returns to shareholders.

Aggreko, which provides temporary power generators to a range of industries, from mining to TV link-ups, pushed up operating profits by 25.1 per cent to £38.4m on turnover of £165.4m.

Group pre-tax profits were £85.9m, after £3.3m of exceptional charges for dealing with the Hays approach and in paying the special dividends, and a £5.8m exceptional profit on disposal.

INTERNATIONAL CAPITAL MARKETS

Single currency worries hit Europe

GOVERNMENT BONDS

By Michael Lindemann in London and Jane Martinson in New York

European government bond prices fell yesterday as worries about the planned single currency once again gripped the markets.

Some analysts suggested the markets would have dropped anyway as profits were taken after Friday's rally, but any hint of this was compounded by comments from French ministers about the need to review the European monetary union stability pact.

"On days like this, you certainly don't want to hold Europe," said Mr Simon Briscoe, chief economist at Nikko Securities.

Most analysts expected the markets to remain "jittery" ahead of the Franco-German summit this Friday and the Amsterdam summit on June 16-17.

Ms Phyllis Reed, at BZW, said a delay to the single currency had become more plausible over the past week, but she suggested a decision would be delayed until the end of this year in the hope that stronger economic growth would help Germany and others to meet the Maastricht treaty's 3 per cent budget deficit target.

ITALIAN BTPs were hit hardest by the worries over Emu. The September BTP future settled at 129.47, down from 130.23. In the cash market, the spread of BTPs over bunds widened nine basis points to 153 basis points.

Analysts warned it could get worse. "Italy has been in the forefront of Europe's convergence rally in the last two years and if Emu optimism is going to come apart now, the quintessence of deconvergence will be expressed via outright attacks on BTPs and the lira," said Mr David Brown, chief European economist at Bear Stearns.

The 10-year BTP/bund spread could touch 175 basis points "very quickly" if Emu was derailed, Mr Brown said.

SPANISH BONOS began weak but found domestic support, some of which seemed to be anticipating strong May inflation data. The figures are due for release on Friday.

The June bono future ended lower, settling down 0.20 at 115.07. The spread over bunds widened four basis points to 87 basis points, having reached 89 basis points.

Given that French comments were responsible for the renewed worries about Emu, analysts were surprised to see FRENCH OATs end the day slightly higher than Friday's close. The June notional future settled at 129.56, up from 129.40.

Observers said domestic investors had helped shore up the market, even though the long end continued to underperform.

UK GILTS also fell as traders took fright at data showing a 1.2 per cent month-on-month increase in industrial production in April.

Mr Briscoe, at Nikko, said gilts also suffered from the bearish sentiment about Europe, even though many analysts have argued that gilts should benefit from worries about continental European markets.

Ms Tilly Russell, a trader at NatWest Markets, said the fall in gilts prices was surprising since investors were sitting on an estimated £2.8bn following the June 7 coupon payments. "It's strange that there is no buying in the market," she said.

The September long gilt future fell $\frac{11}{32}$ to 113$\frac{17}{32}$.

US TREASURY prices were lower at mid-session as profit takers came to the fore in a light market.

The benchmark 30-year note fell ⅛ to 97⅞, yielding 6.801 per cent, after strong gains on Friday when key unemployment figures were released.

The government had some influence on prices yesterday when it announced the cancellation of two 10-year auctions in an expansion of its inflation-linked programme. Traders had not expected supply to be so curtailed.

The Treasury announced the sale of new five-year index-linked notes in July, and said it planned to sell another 10-year index note next January. It also announced plans for a 30-year index-linked bond sometime next year.

Traders expected yesterday to be quiet, with little economic data on the calendar. However, the market will pay keen attention to the publication of retail sales and producer price figures later this week.

They will be used as pointers to the likelihood of the Federal Reserve's Open Market Committee lifting interest rates at its next meeting in July.

The two-year note eased $\frac{1}{32}$ to 100¼, yielding 6.113 per cent, while the 10-year bond lost $\frac{3}{32}$ to 100$\frac{21}{32}$, yielding 6.507 per cent.

CAPITAL MARKETS NEWS DIGEST

US to issue more index-linked bonds

The US Treasury is to increase the volume of "inflation-indexed" bonds after the success of its experimental operation in February. Mr Lawrence Summers, deputy secretary to the Treasury, yesterday said the Treasury would issue five-year and 30-year maturity bonds after it kicked off with 10-year paper earlier this year.

"This is obviously a confident statement by the US Treasury about the country's medium-term inflation outlook. If US inflation were suddenly to rise, the cost of servicing inflation-indexed bonds would also rise, so the government has an incentive to keep inflation low," said Mr Rob Hayward, economic adviser to Bank of America.

With just $15bn issued so far, the market for index-linked Treasury bonds is still a fraction of the size of the conventional Treasury bond sector. Traders have complained that the market is still relatively illiquid, which means that the paper is difficult to trade. By issuing index-linked bonds at different maturities, however, Mr Summers hopes to build up a more liquid yield curve.

"The success of our first issue demonstrates strong demand for the product," said Mr Summers. "But this is a long-term project and it is still in its opening stages."

The US Federal Reserve is also keen on index-linked bonds because it says they provide a good market indicator on expectations of inflation. Competition between the two types of government debt should also reduce the overall cost of Treasury funding, according to officials, by making the market more liquid. *Edward Luce*

Lithuania 'investment grade'

Lithuania was yesterday awarded an investment grade rating by Standard & Poor's, the US credit rating agency. S&P assigned a BBB- rating, its lowest non-speculative grade, to Lithuania's foreign currency-denominated debt and a BBB+ rating to its long-term debt in local currency. Short-term debt was rated A3 and A2 for foreign and local currency respectively.

"Accelerated privatisation and restructuring of large enterprises, along with conservative fiscal and monetary policies, should lead to faster output growth over the remainder of the decade," S&P said. "Downward rating pressure is unlikely, given the buffer provided by low government debt levels."

The ratings are supported by the government's commitment to market-based economic reforms and plans for accelerating the second phase of privatisation. The reduction of dependence on countries of the former Soviet Union is also seen as positive factor. However, S&P pointed out that the banking system is still restrained by asset quality problems and low financial intermediation.

Lithuania's foreign currency debt is rated Ba2 – two notches below investment grade – by Moody's, the other large US agency. Moody's said: "The speed and success of structural reforms...will be key elements in the future of the rating." *Samer Iskandar*

Sicily raises $1bn via special-purpose entity

INTERNATIONAL BONDS

By Samer Iskandar and Edward Luce

The market took a respite yesterday to recover from last week's hectic pace, which led to the issuance of $14bn of new bonds in the dollar sector alone.

The session's largest transaction was an issue by ROSSINI – a repackaging of Sicily's first international financing as an autonomous region.

Rossini, a special-purpose vehicle set up by Credit Suisse First Boston, issued $1bn of floating-rate notes offering a margin of 45 basis points over the London interbank offered rate.

The special entity will receive Sicily's fixed-rate interest payments on the loan, which will be changed into floating-rate payments to investors via a swap with CSFP, a sister company of CSFB which specialises in structured financing.

Although Sicily is not rated by international credit rating agencies, its financial strength is believed to be in the region of lower single-A credits or high triple-B.

For investors preferring to hold rated paper, CSFB is planning to seek a triple-A credit insurance policy from a specialised institution, which will be used to enhance the credit of a quarter to half of the bonds, at the cost of a lower yield to investors.

Sicily is one of five Italian regions with a special status of greater political, administrative and legislative autonomy. It is also the only region with the power to set, modify and collect taxes directly. Italian law states that the region's debt service may not exceed one-quarter of operating revenues.

The high volume of forthcoming redemptions on Swiss retail-type deals persuaded UNITED PARCEL SERVICES to issue a $300m bond targeted at Swiss investors. The three-year paper, which was priced flat to US Treasuries, was lead-managed by Merrill Lynch and Tokyo-Mitsubishi.

A syndicate official said the July 7 payment date coincided with the redemption of a $2bn Canadian bond. A $1bn Toyota bond is also due to be redeemed this week. "It's a good time to catch continental [European] retail liquidity," said a syndicate member.

NEW ZEALAND was also in search of retail investors with a five-year $150m offering callable after two years. Morgan Stanley Dean Witter, lead manager, said the combination of the call option and attractive swap rates allowed the issuer to offer a spread of 26 basis points over Treasuries, about 20 basis points higher than it would have been on a conventional five-year issue by New Zealand.

● 3CIF, the financing arm of property lender Crédit Immobilier de France, is hoping to double the proportion of Asian investors in its bonds to about 30 per cent.

Last week it launched its first euro-Asian bond issue – $750m of seven-year floating-rate notes. The deal, through lead managers CSFB and Paribas, was priced at nine basis points over Libor.

"This is higher than what similar credits pay," said Mr Arnaud Scuderoni, finance director. "In Europe, we would have paid seven basis points [over Libor]. But it is normal to pay a premium to access a new investor base."

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Rossini BV(a)‡	1bn	(a1)	100.00R	Feb 2008	0.35R	-	CSFB
Beta Finance	500	6.625	99.773R	Jul 2002	0.25R	+18(6½%May02)	Salomon/SBC Warburg
Morgan Guaranty Tst Co NY	300	6.625	99.353R	Jun 2004	0.30R	+25(6½%May02)	JP Morgan Securities
United Parcel Services	300	6.25	99.70R	Jul 2000	0.1875R	flat(6⅝%-00)	Merrill/TMI
Safra Leasing(b)	150	8.125s	99.757R	Jun 2005	0.45R	+178(6⅝%-00)	Bear Stearns/Deutsche
New Zealand(c)	150	6.75	99.95R	Jul 2002	0.25R	+26(6½%May02)	Morgan Stanley DW
Postipankki(d)	100	(d1)	99.627R	Jun 2007	0.40R	-	Salomon Brothers Intl
D-MARKS							
European Inv'ment Bank(s)	500	5.00	99.71R	Dec 2003	0.275R	+2(6%Sep03)	ABN Amro Hoare Govett
PESETAS							
Hamburgische Landesbank‡	10bn	(e)	100.00	Jul 1999	1.75	-	Caja de Madrid
NEW ZEALAND DOLLARS							
LB Rheinland-Pfalz	100	7.25	101.30	Jul 2002	2.00	-	Hambros Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Secured on L1,700bn loan to Sicily. Amortises: expected 6.4 year average life. a1) 6-mth Libor +45bp. b) Callable and putable on 16/6/00 at 99.50% and on 16/6/02 at 99.625%. c) Callable on 9/7/99 at par. d) Callable from Jun 02 at par. d1) 3-mth Libor +25bp to Jun 02, then +175bp. e) 6-mth Libor +100bp; interest accrues when 6-mth Libor is between 4% and 6.05%. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	96.0940	-	7.33	7.40	7.85
Austria		5.750	04/07	99.3000	−0.300	5.84	5.93	5.82
Belgium		6.250	03/07	102.6300	−0.050	5.89	6.01	5.94
Canada *		7.250	06/07	106.2300	+0.250	6.40	6.52	6.65
Denmark		8.000	03/06	111.4700	+0.110	6.25	6.39	6.50
France	BTAN	4.750	03/02	100.2038	−0.130	4.70	4.83	4.75
	OAT	5.500	04/07	98.2600	−0.160	5.73	5.85	5.75
Germany Bund		6.000	07/07	101.5600	−0.030	5.79	5.93	5.82
Ireland		8.000	08/06	108.4900	−0.190	6.73	6.72	6.73
Italy		6.750	02/07	96.9600	−0.560	7.19†	7.14	7.50
Japan	No 145	5.500	03/02	116.5690	+0.230	1.74	1.86	1.80
	No 182	3.000	09/05	103.6777	+0.210	2.47	2.55	2.35
Netherlands		5.750	02/07	100.5800	+0.040	5.67	5.79	5.74
Portugal		9.500	02/06	119.8500	−0.080	6.44	6.63	6.71
Spain		7.350	03/07	104.7300	−0.310	6.66	6.64	6.81
Sweden		8.000	08/07	107.0706	−0.300	7.00	7.00	7.31
UK Gilts		7.000	06/02	99-29	−10/32	7.02	7.05	7.14
		7.250	12/07	101-00	−15/32	7.11	7.19	7.45
		9.000	10/08	113-31	−17/32	7.18	7.25	7.54
US Treasury *		6.625	05/07	100-26	+7/32	6.51	6.68	6.73
		6.625	02/27	97-24	+5/32	6.80	6.92	6.98
ECU (French Govt)		7.000	04/06	106.3100	−0.180	6.05	6.14	6.06

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: Standard & Poor's MMS.

US INTEREST RATES

Latest / Treasury Bills and Bond Yields

Prime rate	8½	One month	-	Two year	6.13
Broker loan rate	7¾	Two month	-	Three year	6.28
Fed.funds	$5\frac{7}{16}$	Three month	5.06	Five year	6.41
Fed.funds at intervention	-	Six month	5.39	10-year	6.52
		One year	5.71	30-year	6.81

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	129.58	129.58	+0.16	129.86	129.30	148,302	122,798
Sep	128.00	127.90	+0.16	128.16	127.74	58,281	99,653
Dec	97.06	96.96	+0.16	97.06	97.06	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jun	Calls Jul	Calls Sep	Puts Jun	Puts Jul	Puts Sep
126	1.99	2.23	2.42	0.00	0.34	0.53
127	1.14	1.49	1.70	0.04	0.59	0.81
128	0.48	0.88	1.11	0.58	0.98	1.21
129	0.13	0.45	0.65	1.23	1.55	1.74
130	0.03	0.20	0.33	-	-	-

Est. vol. total, Calls 8,784 Puts 27,602. Previous day's open int. Calls 126,677 Puts 157,716.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	101.04	100.70	-0.04	101.10	100.65	151988	226029
Dec	100.04	99.80	-0.03	100.04	100.04	200	50

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
10050	0.56	0.89	1.10	1.16	0.35	0.68	0.90	1.85
10100	0.31	0.63	0.83	0.96	0.61	0.93	1.13	2.16
10150	0.15	0.43	0.62	0.79	0.95	1.23	1.42	2.49

Est. vol. total, Calls 10316 Puts 17808. Previous day's open int., Calls 164382 Puts 173250

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	130.55	129.47	-0.76	130.60	129.25	68217	82700
Dec	102.75	102.72	-0.66	102.75	102.75	150	150

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
12900	2.11	0	1.56	26.28
12950	1.84	0	1.87	26.78
13000	1.56	0	2.11	27.28

Est. vol. total, Calls 1088 Puts 2484. Previous day's open int., Calls 36960 Puts 41593

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	115.71	115.06	-0.30	115.80	114.82	123,127	73,513
Sep	114.90	114.25	-0.25	114.90	114.12	9,368	30,358

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	113-27	113-07	-0-17	113-27	113-05	7317	32563
Sep	114-05	113-17	-0-17	114-06	113-15	52234	154771

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
113	0-60	1-27	1-49	2-18	0-26	0-57	1-15	2-08
114	0-27	0-58	1-16	1-52	0-57	1-24	1-46	2-42
115	0-10	0-33	0-53	1-27	1-40	1-63	2-19	3-17

Est. vol. total, Calls 2340 Puts 130. Previous day's open int., Calls 33541 Puts 23817

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	95.36	95.02	+0.02	95.36	94.84	1,983	4,749
Sep	94.90	94.60	-	94.90	94.46	1,198	1,406

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	111-20	111-11	-0-09	111-20	111-11	27,091	148,693
Sep	111-09	111-00	-0-07	111-08	110-30	666,452	304,213
Dec	110-21	110-27	+0-01	110-27	110-19	1,165	24,048

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec						0	na
Sep	123.23			123.30	122.42	1025	na

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Mon Jun 9	Day's change %	Fri Jun 6	Accrued interest	xd adj. ytd		Low coupon yield Jun 9	Jun 6	Yr. ago	Medium coupon yield Jun 9	Jun 6	Yr. ago	High coupon yield Jun 9	Jun 6	Yr. ago
1 Up to 5 years (20)	119.64	-0.14	119.81	1.84	5.38	5 yrs	7.04	6.96	7.62	7.10	7.03	7.66	7.15	7.07	7.76
2 5-15 years (20)	151.65	-0.38	152.24	1.87	5.93	15 yrs	7.14	7.11	8.24	7.16	7.12	8.36	7.18	7.13	8.44
3 Over 15 years (8)	178.65	-0.57	179.68	5.13	5.02	20 yrs	7.17	7.15	8.41	7.18	7.12	8.41	7.18	7.13	8.48
4 Irredeemables (6)	206.68	-0.05	206.98	1.56	7.10	Irred.†	7.27	7.27	8.43						
5 All stocks (51)	146.23	-0.34	146.73	2.44	5.68										

Index-linked							Inflation 5% Jun 9	Jun 6	Yr. ago	Inflation 10% Jun 9	Jun 6	Yr. ago
6 Up to 5 years (2)	204.48	-0.07	204.62	1.15	3.03	Up to 5 yrs	3.56	3.53	2.97	2.94	2.91	1.63
7 Over 5 years (10)	196.29	-0.24	196.75	1.50	2.86	Over 5 yrs	3.67	3.64	3.77	3.47	3.45	3.58
8 All stocks (12)	196.08	-0.22	196.51	1.45	2.86							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Jun 9	Jun 6	Jun 5	Jun 4	Jun 3	Yr ago	High*	Low*
Govt. Secs. (UK)	95.44	95.51	95.36	95.48	95.73	92.29	97.51	93.21
Fixed Interest	120.7	120.80	120.84	120.42	120.57	112.01	121.58	115.22

Gilt Edged Activity Indices

	Jun 6	Jun 5	Jun 4	Jun 3	Jun 2
Gilt Edged bargains	NA	NA	NA	NA	NA
5-day average	NA	NA	NA	NA	NA

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FT/ISMA INTERNATIONAL BOND SERVICE

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

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CURRENCIES AND MONEY

Dollar falls on trade and Emu fears

MARKETS REPORT

By Robert Chote

The US dollar began the week under pressure after US officials expressed concern about Japan's rising trade surplus and as France threw the future of Europe's troubled single currency project further into doubt.

The approach of next week's summit of heads of government and finance ministers from the Group of Eight leading industrial countries has put concerns about Japan's trade position into sharper focus.

The US is expected to bring up trade at the Denver meeting, which will come just days after official figures expected to show a doubling in the bilateral surplus over the past year.

Meanwhile, the dollar suffered against the D-mark as the future of European monetary union was further muddied by French demands for more time to consider the "stability pact" proposals for restricting government borrowing within the single currency area.

■ Concern over Japan's trade surplus with the US saw the dollar crumble to a low of Y111.80 at midday in Tokyo, its weakest since December 6 last year. This was two-and-a-half yen beneath the low point reached by the dollar in late New York trading on Friday.

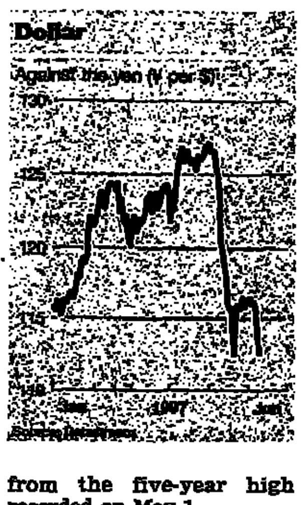
The slide was triggered by expressions of concern about the trade position on Friday from Ms Charlene Barshefsky, the US trade representative, and Mr Robert Rubin, the US Treasury secretary.

Analysts speculated that the Japanese authorities were happy to see the yen drift higher in order to avoid confrontation at the Denver G8 summit, which gets under way a week on Friday.

Mr Tsutomu Makino, Japanese vice-minister of international trade and industry, said the issue might come up among the G8, but he added: "I have not heard that the trade surplus is going to be discussed as a special subject at the summit".

Mr Peter von Maydell, senior currency economist at UBS, said that the move began in Asia with active selling of D-Mark/yen with the dollar following, albeit in thin conditions. The D-Mark reached a 21-month high against the Japanese currency at Y65.22.

The US currency steadied following reassuring comments from Japanese officials and then traded above Y112 in Europe. The dollar closed in London at Y112.75, a fall of Y2.62 since Friday's close and 11.5 per cent down from the five-year high recorded on May 1.



Mr Michael Burke, economist at Citibank, said the short-term outlook for the yen was poor, with plenty of funds still looking to offload dollars which they had bought on the way up. "If it breaches Y110 – which is a barrier both psychologically and technically – then it could go through Y105 very quickly", he said.

The yen's ascent in recent weeks owes much to the perception that monetary tightening in Japan is likely to be more aggressive than previously expected, while expectations of interest rate rises in the US and Europe have become more restrained.

■ The D-mark leapt sharply on news that Mr Dominique Strauss-Kahn, the French finance minister, had told colleagues in Luxembourg that the French National Assembly would have to be consulted before agreement could be reached on the stability pact.

The dollar ended in London at DM1.7085, down from Friday's close of DM1.7289. Mr Burke said traders betting on Emu unravelling had used the D-mark as a safe-haven, while those expecting Emu to go ahead with a broad membership had brought the European crosses. As a result the European bloc as a whole rose against the dollar.

The D-mark closed at FFr3.38, up a little from Friday's close of FFr3.375. Mr Burke said that the next important levels were FFr3.40 and FFr3.43 and that if – a big if – it crossed these then the rate could move to FFr3.50 or beyond.

Sterling was caught between the US and German currencies. It shed 2.16 pfennigs to reach DM2.7920, but gained two-thirds of a cent to reach $1.6342. Sterling jumped briefly on buoyant manufacturing production figures, which were seen as *ex post* justification for Friday's quarter-point rise in UK interest rates.

■ Pound in New York

Jun 9	– Latest –	– Prev. close –
£ spot	1.6360	1.6320
1 mth	1.6348	1.6308
3 mth	1.6325	1.6286
1 yr	1.6228	1.6200

■ OTHER CURRENCIES

Jun 9	£	$
Czech Rp	52.6551 - 53.0062	32.2610 - 32.4460
Hungary	296.263 - 298.475	183.170 - 183.210
Iran	[illegible]	[illegible]
Kuwait	0.4936 - 0.4940	0.3021 - 0.3022
Poland	5.2484 - 5.2592	3.2130 - 3.2150
Russia	9418.80 - 9463.74	5765.00 - 5767.00
UAE	6.0005 - 6.0046	3.6728 - 3.6731

WORLD INTEREST RATES

MONEY RATES

Jun 9	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3⅛	3¼	3¼	3¼	3⅜	6.00	2.50	-
France	3¼	3⅛	3⅜	3⅛	3½	3.10	-	4.75
Germany	3	3⅛	3⅛	3⅛	3¼	4.50	2.50	3.00
Ireland	5¾	6⅛	6¼	6¼	6⅜	-	-	6.75
Italy	6¾	6¾	6⅝	6⅜	6⅜	8.25	6.75	6.76
Netherlands	3⅛	3⅛	3⅛	3⅛	3⅜	-	2.50	2.80
Switzerland	1¼	1⅛	1⅜	1⅝	1¾	-	1.00	-
US	5½	5⅝	5⅝	5¾	6⅛	-	5.00	-
Japan	½	⅝	⅝	⅝	⅞	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅝	5⅞	5⅞	6¼	-	-	-
US Dollar CDs	-	5.49	5.61	5.72	5.96	-	-	-
ECU Linked Ds	-	4⅛	4⅛	4⅛	4⅜	-	-	-
SDR Linked Ds	-	3⅝	3⅝	3⅝	3⅞	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 9	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	5½ - 5¼	6½ - 6⅜	6 11/16 - 6 9/16	6⅞ - 6 13/16	6 15/16 - 6¾	7 1/16 - 7
Swiss Franc	1¼ - 1	1 5/16 - 1 3/16	1 5/16 - 1 3/16	1 7/16 - 1 5/16	1½ - 1¼	1⅝ - 1⅜
Canadian Dollar	3 - 2⅞	3 1/16 - 2 15/16	3⅛ - 2⅞	3 5/16 - 3 3/16	3½ - 3 5/16	4 1/16 - 3 15/16
US Dollar	5½ - 5⅜	5 11/16 - 5 9/16	5 11/16 - 5 9/16	5 13/16 - 5 11/16	5 15/16 - 5 13/16	6 5/16 - 6 3/16
Italian Lira	7½ - 6½	6 15/16 - 6⅞	6 15/16 - 6 13/16	6 15/16 - 6 13/16	6⅞ - 6 13/16	6 13/16 - 6¾
Japanese Yen	17/32 - ½	⅝ - 17/32	0⅝ - 0½	¾ - 0 11/16	⅞ - 0 13/16	[illegible]
Asian $Sing	2¾ - 2⅝	3⅛ - 3	3⅜ - 3¼	3½ - 3⅜	3 9/16 - 3 7/16	3 11/16 - 3 9/16

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.54	96.52	-0.02	96.56	96.46	28,872	55,744
Sep	96.46	96.42	-0.04	96.49	96.36	38,276	61,959
Dec	96.44	96.42	-0.02	96.47	96.36	9,462	32,386

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.86	96.84	+0.01	96.86	96.84	16526	197507
Sep	96.81	96.80	+0.01	96.81	96.79	26129	232149
Dec	96.72	96.70	+0.01	96.73	96.70	27623	246794
Mar	96.61	96.60	+0.02	96.62	96.59	24967	225541

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		96.87	-			0	2042
Jul	96.85	96.86	+0.01	96.86	96.85	78	361
Aug		96.84	+0.02			0	130
Sep		96.83	+0.03			0	3

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.10	93.05	-0.05	93.11	93.02	15784	77658
Sep	93.37	93.25	-0.08	93.37	93.23	26558	113716
Dec	93.56	93.48	-0.07	93.57	93.44	14878	63526
Mar	93.70	93.61	-0.08	93.71	93.57	4443	38537

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.57	98.50	-0.07	98.58	98.49	5473	39200
Sep	98.49	98.40	-0.08	98.53	98.38	12759	58346
Dec	98.31	98.24	-0.07	98.34	98.23	3966	34757
Mar	98.20	98.13	-0.05	98.23	98.16	613	15256

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		99.39	-			0	na
Sep		99.23	+0.01			0	na
Dec	98.95	98.95	+0.05	98.95	98.95	1005	na

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.83	95.80	-0.01	95.84	95.79	402	7349
Sep	95.80	95.77	-0.02	95.80	95.77	790	7304
Dec	95.78	95.75	-0.02	95.78	95.76	73	5580
Mar	95.70	95.69	-	95.70	95.68	121	3969

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9300	0.10	0.42	0.67	0.05	0.17	0.19
9325	0.01	0.27	0.50	0.21	0.27	0.27
9350	0	0.15	0.36	0.45	0.40	0.38

Est. vol. total, Calls 2076 Puts 2076. Previous day's open int., Calls 186725 Puts 93792

POUND SPOT FORWARD AGAINST THE POUND

Jun 9		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.6498	-0.1525	404 - 593	19.8430	19.6374	19.5981	3.3	19.5081	2.9	-	-	103.0
Belgium	(BFr)	57.6788	-0.4211	604 - 971	58.2090	57.5604	57.4588	3.2	57.1438	3.3	55.7136	3.3	102.9
Denmark	(DKr)	10.6313	-0.0814	271 - 355	10.7362	10.6234	10.6058	2.9	10.5533	2.9	10.3318	2.8	105.7
Finland	(FM)	8.4039	-0.0426	977 - 100	8.5060	8.3977	-	-	-	-	-	-	82.2
France	(FFr)	9.4359	-0.0803	319 - 398	9.5183	9.4319	9.4117	3.1	9.3688	3.1	9.1412	3.1	105.5
Germany	(DM)	2.7920	-0.0216	907 - 932	2.8060	2.7860	2.7844	3.3	2.7684	3.4	2.6981	3.4	104.2
Greece	(Dr)	444.829	-2.986	606 - 053	448.313	444.606	-	-	-	-	-	-	65.0
Ireland	(I£)	1.0612	-0.0142	602 - 622	1.0654	1.0602	1.0613	-0.1	1.0609	0.1	1.0733	0.7	[illegible]
Italy	(L)	2757.39	-14.36	[illegible]	2777.84	2755.82	2759.29	-0.8	2760.89	-0.5	2746.79	0.4	75.1
Luxembourg	(LFr)	57.6788	-0.4211	604 - 971	58.2090	57.5604	57.4588	3.2	57.1438	3.3	55.7136	3.3	102.9
Netherlands	(Fl)	3.1412	-0.0257	393 - 426	3.1719	3.1371	3.1327	3.2	3.1147	3.4	3.0366	3.3	102.5
Norway	(NKr)	11.6246	-0.0403	201 - 290	11.6652	11.5893	11.5941	3.1	11.5346	3.1	11.2666	2.8	98.0
Portugal	(Es)	282.798	-1.832	647 - 949	285.751	282.503	282.648	0.6	282.273	0.7	-	-	93.4
Spain	(Pta)	236.387	-1.826	248 - 527	238.820	236.248	236.227	0.8	235.787	1.0	233.092	1.4	77.5
Sweden	(SKr)	12.6707	-0.0078	611 - 802	12.7326	12.6535	12.6482	2.1	12.6012	2.2	12.4072	2.1	83.0
Switzerland	(SFr)	2.3493	-0.0117	481 - 504	2.3694	2.3388	2.3399	4.8	2.3208	4.9	2.2369	4.8	104.7
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	99.0
Ecu	-	1.4354	-0.0099	338 - 370	1.4478	1.4330	1.4327	2.2	1.4288	2.4	1.3997	2.5	-
SDR†	-	1.174787	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6332	+0.0067	328 - 336	1.6378	1.6294	-	-	-	-	-	-	-
Brazil	(R$)	1.7534	+0.0079	526 - 541	1.7585	1.7483	-	-	-	-	-	-	-
Canada	(C$)	2.2658	+0.0132	648 - 667	2.2705	2.2578	2.2595	3.3	2.2481	3.1	2.2064	2.6	84.1
Mexico	(New Peso)	13.0491	+0.0384	377 - 605	13.1085	13.0106	-	-	-	-	-	-	-
USA	($)	1.6342	+0.0067	336 - 348	1.6386	1.6304	1.633	0.9	1.6308	0.8	1.6226	0.7	101.9
Pacific/Middle East/Africa													
Australia	(A$)	2.1468	+0.0041	455 - 480	2.1529	2.1408	2.1462	0.3	2.1443	0.5	2.1342	0.6	92.8
Hong Kong	(HK$)	12.6544	+0.0522	505 - 583	12.6877	12.6258	12.6465	0.6	12.6379	0.5	12.6031	0.4	-
India	(Rs)	58.4698	+0.2366	034 - 135	58.5640	58.3470	-	-	-	-	-	-	-
Israel	(Shk)	5.5518	+0.0006	452 - 378	5.5692	5.5302	-	-	-	-	-	-	-
Japan	(Y)	184.258	-3.495	129 - 383	188.430	182.720	183.196	6.9	181.186	6.7	172.571	6.5	134.5
Malaysia	(M$)	4.1059	+0.0199	051 - 087	4.1162	4.0939	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3665	+0.0012	647 - 683	2.3727	2.3620	2.3663	0.1	2.3678	-0.1	2.3744	-0.3	112.5
Philippines	(Peso)	43.1086	+0.1602	670 - 502	43.1502	43.0670	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.1291	+0.0252	274 - 307	6.1452	6.1150	-	-	-	-	-	-	-
Singapore	(S$)	2.3193	-0.0085	179 - 206	2.3347	2.3179	-	-	-	-	-	-	-
South Africa	(R)	7.3552	+0.0585	513 - 590	7.3769	7.3139	-	-	-	-	-	-	-
South Korea	(Won)	1456.07	+6.82	163 - 052	1460.52	1450.52	-	-	-	-	-	-	-
Taiwan	(T$)	45.5533	+0.1555	013 - 053	45.6350	45.4637	-	-	-	-	-	-	-
Thailand	(Bt)	39.9562	+0.8648	647 - 477	42.0477	38.8050	-	-	-	-	-	-	-

† Rates for Jun 6 . Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 9		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	12.0240	-0.1438	213 - 267	12.1510	12.0030	12.0015	2.2	11.9527	2.4	11.704	2.7	102.6
Belgium	(BFr)	35.2550	-0.405	310 - 790	35.6550	35.2000	35.18	2.6	35.025	2.6	34.285	2.8	102.7
Denmark	(DKr)	6.5055	-0.077	045 - 065	6.5712	6.4955	6.4937	2.2	6.469	2.2	6.357	2.3	104.7
Finland	(FM)	5.1425	-0.0477	400 - 450	5.2100	5.1357	5.1306	2.8	5.1062	2.8	4.988	2.8	81.6
France	(FFr)	5.7740	-0.061	730 - 750	5.8262	5.7690	5.7623	2.4	5.7398	2.4	5.6272	2.6	104.7
Germany	(DM)	1.7085	-0.0204	081 - 088	1.7270	1.7048	1.7046	2.2	1.6971	2.7	1.6602	2.8	103.5
Greece	(Dr)	272.200	-2.95	130 - 270	274.880	271.790	273.085	-3.9	274.625	-3.6	280.9	-3.2	64.7
Ireland	(I£)	1.5316	+0.0257	105 - 125	1.5125	1.4905	1.5109	0.5	1.5103	0.3	1.507	0.3	-
Italy	(L)	1687.30	-15.86	660 - 770	1699.75	1686.85	1689.2	-1.4	1691.4	-1.1	1694.17	-0.4	75.7
Luxembourg	(LFr)	35.2550	-0.405	310 - 790	35.6550	35.2000	35.18	2.6	35.025	2.6	34.285	2.8	102.7
Netherlands	(Fl)	1.9222	-0.0225	218 - 227	1.9410	1.9178	1.9181	2.6	1.9095	2.6	1.869	2.8	102.2
Norway	(NKr)	7.1133	-0.0543	123 - 143	7.1620	7.0893	7.099	2.3	7.0705	2.4	6.9443	2.4	97.1
Portugal	(Es)	173.050	-1.72	000 - 100	174.750	172.700	173.035	0.1	172.97	0.2	171.88	0.6	93.9
Spain	(Pta)	144.850	-1.8	600 - 700	146.050	144.500	144.85	0.0	144.573	0.2	143.315	0.9	77.1
Sweden	(SKr)	7.7535	-0.0869	487 - 572	7.7966	7.7364	7.7441	1.4	7.7235	1.5	7.629	1.6	82.9
Switzerland	(SFr)	1.4376	-0.0131	372 - 379	1.4505	1.4282	1.4327	4.0	1.423	4.1	1.3773	4.2	104.3
UK	(£)	1.6342	+0.0067	338 - 346	1.6386	1.6304	1.633	0.9	1.6308	0.8	1.6226	0.7	99.2
Ecu		1.1385	+0.0015	376 - 395	1.1418	1.1300	1.14	-1.5	1.1435	-1.7	1.1609	-2.0	-
SDR†		0.72295	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9994	-	994 - 994	0.9994	0.9994	-	-	-	-	-	-	-
Brazil	(R$)	1.0729	+0.0004	727 - 731	1.0732	1.0724	-	-	-	-	-	-	-
Canada	(C$)	1.3865	+0.0023	862 - 867	1.3875	1.3835	1.3836	2.6	1.378	2.5	1.359	2.0	84.1
Mexico	(New Peso)	7.9850	-0.0095	800 - 900	7.9910	7.9860	8.0095	-16.3	8.295	-15.5	9.29	-16.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	103.9
Pacific/Middle East/Africa													
Australia	(A$)	1.3136	-0.003	132 - 141	1.3141	1.3132	1.314	-0.4	1.3141	-0.2	1.3131	0.0	95.7
Hong Kong	(HK$)	7.7435	-	430 - 440	7.7440	7.7430	7.7445	-0.2	7.7459	-0.1	7.756	-0.2	-
India	(Rs)	35.7720	-0.023	670 - 970	35.7970	35.7470	35.862	-3.0	36.147	-4.2	38.952	-8.1	-
Israel	(Shk)	3.3971	-0.0158	941 - 001	3.4100	3.3907	-	-	-	-	-	-	-
Japan	(Y)	112.750	-2.615	700 - 800	114.150	111.900	112.195	5.9	111.09	5.9	106.19	5.8	133.3
Malaysia	(M$)	2.5131	+0.0018	126 - 136	2.5136	2.5099	2.5154	-1.1	2.5195	-1.0	2.5364	-0.9	-
New Zealand	(NZ$)	1.4481	-0.0053	474 - 489	1.4489	1.4474	1.4489	-0.7	1.4513	-0.9	1.4614	-0.9	-
Philippines	(Peso)	26.3790	-0.011	600 - 980	26.3900	26.3600	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-0.0001	504 - 506	3.7506	3.7504	3.7508	-0.1	3.7513	-0.1	3.7542	-0.1	-
Singapore	(S$)	1.4192	-0.0099	187 - 197	1.4283	1.4179	1.4176	1.4	1.4135	1.6	1.3917	1.9	-
South Africa	(R)	4.5008	+0.0173	995 - 020	4.5100	4.4840	4.5403	-10.5	4.6176	-10.4	4.9158	-9.2	-
South Korea	(Won)	891.000	+0.5	500 - 500	893.500	888.500	-	-	-	-	-	-	-
Taiwan	(T$)	27.8750	-0.02	500 - 000	27.9000	27.8500	27.8757	0.0	27.877	0.0	27.8813	0.0	-
Thailand	(Bt)	24.4500	+0.43	000 - 000	25.7600	23.7500	24.5113	-3.0	24.635	-3.0	25.305	-3.1	-

† SDR rate per $ for Jun 6. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 6: Base average 1990=100.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 9		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.45	16.38	4.846	1.877	4786	5.452	20.18	490.9	410.3	21.98	4.078	1.736	3.933	2.836	319.8	2.481
Denmark	(DKr)	54.19	10	8.876	2.626	1.017	2594	2.955	10.93	266.0	222.4	11.92	2.210	0.941	2.131	1.537	173.3	1.350
France	(FFr)	61.06	11.27	10	2.959	1.146	2922	3.329	12.32	299.7	250.5	13.43	2.490	1.060	2.401	1.732	195.3	1.521
Germany	(DM)	20.64	3.808	3.380	1	0.387	987.6	1.125	4.163	101.3	84.66	4.538	0.841	0.358	0.812	0.585	65.99	0.514
Ireland	(I£)	53.29	9.833	8.727	2.582	1	2550	2.905	10.75	261.6	218.6	11.72	2.173	0.925	2.096	1.512	170.4	1.328
Italy	(L)	2.089	0.386	0.342	0.101	0.039	100	0.114	0.422	10.26	8.573	0.460	0.085	0.036	0.082	0.059	6.682	0.052
Netherlands	(Fl)	18.34	3.384	3.004	0.889	0.344	877.8	1	3.701	90.03	75.25	4.034	0.748	0.318	0.721	0.520	58.66	0.457
Norway	(NKr)	49.56	9.146	8.117	2.402	0.930	2372	2.702	10	243.3	203.4	10.90	2.021	0.860	1.949	1.406	158.5	1.235
Portugal	(Es)	20.37	3.759	3.337	0.987	0.382	975.0	1.111	4.111	100	83.59	4.481	0.831	0.354	0.801	0.578	65.15	0.508
Spain	(Pta)	24.37	4.497	3.992	1.181	0.457	1166	1.329	4.918	119.6	100	5.360	0.994	0.423	0.959	0.691	77.95	0.607
Sweden	(SKr)	45.47	8.390	7.447	2.204	0.853	2176	2.479	9.174	223.2	186.6	10	1.854	0.789	1.788	1.290	145.4	1.133
Switzerland	(SFr)	24.52	4.525	4.016	1.186	0.460	1174	1.337	4.948	120.4	100.6	5.393	1	0.426	0.964	0.696	78.43	0.611
UK	(£)	57.61	10.63	9.436	2.792	1.081	2757	3.141	11.62	282.8	236.4	12.67	2.349	1	2.266	1.634	184.3	1.435
Canada	(C$)	25.43	4.692	4.164	1.232	0.477	1217	1.386	5.130	124.8	104.3	5.592	1.037	0.441	1	0.721	81.32	0.634
USA	($)	35.26	6.506	5.774	1.709	0.662	1687	1.922	7.113	173.1	144.7	7.754	1.438	0.612	1.387	1	112.8	0.878
Japan	(Y)	31.27	5.770	5.121	1.515	0.587	1496	1.705	6.309	153.5	128.3	6.877	1.275	0.543	1.230	0.887	100	0.779
Ecu	-	40.14	7.407	6.574	1.945	0.753	1921	2.188	8.099	197.0	164.7	8.827	1.637	0.697	1.579	1.139	128.4	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5805	0.5869	+0.0074	0.5869	0.5796	33,472	71,304
Sep	0.5840	0.5906	+0.0073	0.5907	0.5838	16,040	34,818
Dec	0.5922	0.5922	-	0.5922	0.5922	41	459

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8767	0.8919	+0.0186	0.8919	0.8885	25,417	70,915
Sep	0.8882	0.9037	+0.0188	0.9037	0.9003	10,202	17,124
Dec	0.9150	0.9150	+0.0185	0.9150	0.9150	12	890

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6916	0.7010	+0.0111	0.7010	0.6957	23,048	33,576
Sep	0.6968	0.7084	+0.0110	0.7084	0.6980	8,780	12,822
Dec	-	0.7165	+0.0114	0.7165	0.7160	163	617

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6338	1.6330	+0.0012	1.6378	1.6330	16,834	35,930
Sep	1.6300	1.6298	+0.0012	1.6346	1.6294	3,574	7,374
Dec	-	1.6280	+0.0026	1.6280	-	1	115

UK INTEREST RATES

LONDON MONEY RATES

Jun 9	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6½ - 5	6½ - 6⅜	6 9/16 - 6 7/16	6¾ - 6⅝	6 15/16 - 6 13/16	7⅛ - 7
Sterling CDs	-	-	6 9/16 - 6½	6 13/16 - 6 11/16	6 15/16 - 6½	6 31/32 - 6 29/32
Treasury Bills	-	-	6 9/16 - 6 7/16	6 11/16 - 6⅝	-	-
Bank Bills	-	-	6 9/16 - 6 7/16	6⅝ - 6½	6⅞ - 6 13/16	-
Local authority deps.	6 5/16 - 6	6⅛ - 6 5/16	6 11/16 - 6⅝	6⅞ - 6 13/16	6 31/32 - 6 29/32	7 - 6 15/16
Discount Market deps	6 5/16 - 6⅛	6 5/16 - 6¼	-	-	-	-

UK clearing bank base lending rate 6½ per cent from Jun 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on May 30, 6.2108pc. ECGD fixed rate Stg. Export Finance. Make up day May 30, 1997. Agreed rate for period Jun 25, 1997 to Jul 25, 1997, Scheme III 7.78pc. Reference rate for period May 1, 1997 to May 30, 1997, Schemes IV & V 6.530pc. Finance House Base Rate 7pc from Jun 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.28	93.28	-	93.29	93.27	10827	104018
Sep	93.15	93.09	-0.05	93.15	93.08	29987	122061
Dec	93.00	92.93	-0.07	93.00	92.92	18258	101737
Mar	92.91	92.83	-0.07	92.91	92.82	12010	65752
Jun	92.81	92.75	-0.07	92.81	92.75	3281	46668

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9325	0.04	0.04	0.05	0.01	0.20	0.37
9350	0	0.01	0.01	0.22	0.42	0.58
9375	0	0	0	0.47	0.66	0.82

Est. vol. total, Calls 1366 Puts 4341. Previous day's open int., Calls 180740 Puts 180037

EMS EUROPEAN CURRENCY UNIT RATES

Jun 9	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.756333	-0.006967	-5.31	8.24	36
Portugal	197.398	198.504	+0.548	0.56	1.92	-4
Finland	5.85424	5.89515	+0.00912	0.70	1.78	-5
Spain	163.826	165.816	+0.213	1.21	1.26	-8
Italy	1906.48	1934.94	+7.77	1.49	0.99	-11
Denmark	7.34555	7.45531	-0.01062	1.49	0.99	-10
Netherlands	2.16979	2.20273	-0.00381	1.52	0.96	-11
Germany	1.92573	1.95785	-0.00333	1.67	0.81	-16
Austria	13.5485	13.7799	-0.0231	1.71	0.77	-12
Belgium	39.7191	40.4060	-0.0615	1.73	0.75	-13
France	6.45863	6.61972	+0.00351	2.49	0.00	-21
NON ERM MEMBERS						
Greece	295.269	311.827	+0.269	5.61	-2.95	-
UK	0.793103	0.698001	+0.00262	-11.99	16.48	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	PUTS Jun	PUTS Jul	PUTS Aug
1.620	1.22	2.07	2.64	0.13	1.03	1.77
1.630	0.65	1.51	2.18	0.52	1.46	2.25
1.640	0.30	1.07	1.72	1.03	2.05	2.76

Previous day's vol., Calls 1,848 Puts 1,120 . Prev. day's open int., Calls 35,868 Puts 38,377

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	PUTS Jun	PUTS Jul	PUTS Aug
0.575	0.80	0.97	1.30	0.12	0.41	0.63
0.580	0.17	0.67	1.04	0.31	0.62	0.85
0.585	0.08	0.45	0.80	0.64	0.90	1.08

Previous day's vol., Calls 1,468 Puts 3,087 . Prev. day's open int., Calls 23,863 Puts 30,549

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.20	94.19	-0.01	94.20	94.19	79,865	387,474
Sep	94.05	94.03	-0.03	94.05	94.03	219,748	504,949
Dec	93.86	93.83	-0.03	93.85	93.83	305,537	406,312

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.94	94.95	-	94.95	94.94	216	4,000
Sep	94.69	94.69	-	94.69	94.69	340	5,933

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Aug	PUTS Sep
9675	0.10	0.07	0.06	0.09	0.01	0.02	0.03	0.04
9700	0.01	0	0.01	0.02	0.17	0.20	0.21	0.22
9725	0	0	0	0	0.41	0.46	0.45	0.45

Est. vol. total, Calls 8050 Puts 2947. Previous day's open int., Calls 522351 Puts 331535

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9875	0.01	0.05	0.16	0.26	0.40	0.57
9900	0	0.02	0.08	0.50	0.62	0.84

Est. vol. total, Calls 200 Puts 0. Previous day's open int., Calls 4655 Puts 4040

BASE LENDING RATES

	%		%		%
Adam & Company	6.50	Duncan Lawrie	6.25	●Singer & Friedlander	6.25
Allied Irish Bank (GB)	6.25	Exeter Bank Limited	7.50	●Smith & Williamson Secs	6.50
●Henry Ansbacher	6.50	Financial & Gen Bank	7.50	Scottish Widows Bank	6.50
Bank of Baroda	6.25	●Robert Fleming & Co	6.50	TSB	6.50
Banco Bilbao Vizcaya	6.50	●Guinness Mahon	6.50	United Bank of Kuwait	6.25
Bank of Cyprus	6.50	Habib Bank AG Zurich	6.50	Unity Trust Bank Plc	6.50
Bank of Ireland	6.50	●Hambros Bank	6.50	Western Trust	6.50
Bank of India	6.50	Heritable & Gen Inv Bk	6.50	Whiteaway Laidlaw	6.50
Bank of Scotland	6.50	C. Hoare & Co	6.50	Yorkshire Bank	6.25
Barclays Bank	6.25	Hongkong & Shanghai	6.50		
Brit Bk of Mid East	6.50	Investec Bank (UK) Ltd	6.50	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	6.25	Julian Hodge Bank	6.50	* In administration	
Citibank NA	6.50	●Leopold Joseph & Sons	6.50		
Clydesdale Bank	6.50	Lloyds Bank	6.50		
The Co-operative Bank	6.50	Midland Bank	6.25		
Coutts & Co	6.50	NatWestminster	6.50		
Cyprus Popular Bank	6.50	●Rea Brothers	6.50		
		Royal Bk of Scotland	6.25		

COMMODITIES AND AGRICULTURE

Chinese copper usage underestimated, say analysts

By Kenneth Gooding, Mining Correspondent

Big differences in official statistics covering China's copper consumption caused analysts at Bankers Trust, the investment bank, to start some detective work.

Six months later, the analysts have concluded that Chinese copper usage "might significantly exceed both market and official estimates". Consequently, they have increased substantially their copper price forecasts.

Ms Virginia Howarth, resource analyst at BT Securities (Australia), who was responsible for much of the detective work, says: "We expect the copper price could reach US$1.30 a pound [$2,865 a tonne] by the end of 1997 and $1.45 a pound [$3,196 a tonne] by the end of 1998.

"For the purpose of forecasting, we assume the average price of $1.20 in the second half of this year and $1.35 in 1998." She adds that the forecasts "are significantly above market expectations of 98 cents a pound for the second half of 1997 and 91½ cents in 1998".

Ms Howarth suggests that the Bankers Trust analysis may at least partly explain many recent discrepancies in world copper statistics, including the recent revisions by the UK-based World Bureau of Metal Statistics, whose figures many analysts rely on for their basic information.

She says Bankers Trust started its inquiries after the Chinese State Statistical Bureau published its latest 10-year survey at the end of 1996. This put China's copper consumption in 1995 at 1.58m tonnes, compared with the previous official figure, provided by China National Nonferrous Metals Corporation (CNNC), of 980,000 tonnes.

As China accounts for about 10 per cent of global copper consumption and is a key "swing" factor in the outlook for the global copper market, Bankers Trust decided to dig deeper.

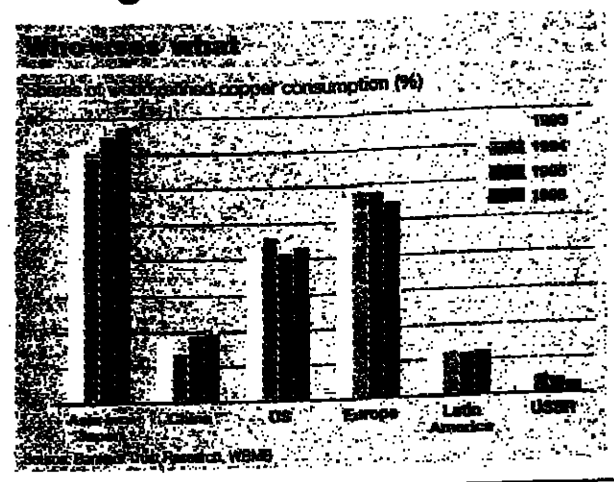
Ms Howarth says she made detailed comparisons of Chinese copper consumption with the macroeconomic factors in the country's economy (for example, its gross domestic product and industrial production) and with the microeconomic components which use copper (such as foreign capital ventures, capital construction in electricity and telecommunications as well as components of industrial output including motor vehicles, washing machines and refrigerators).

The results led her to conclude that previous refined copper consumption statistics might have been significantly underestimated. She also concluded that China was poised for further economic growth.

Ms Howarth argues that, conservatively, China consumed 1.3m tonnes of copper in 1995 and that this could rise to 1.621m tonnes this year and to 1.862m tonnes in 1998.

This would cause the global copper market to have a supply deficit of 210,000 tonnes this year and one of 472,000 tonnes in 1998, she says.

She expects the supply deficit to continue in 1999 and says: "we expect that the copper price will remain at least at $1.35 a pound [$2,975 a tonne] in 1999."



Colombia tries new approach to coffee pest

Bio-technology may replace a toxic and ineffective poison in fighting the berry borer beetle

Small is not necessarily beautiful. At no more than 2mm long, *Hypothenemus hampei*, the coffee berry borer beetle, is an ugly beast as far as coffee producers are concerned.

Since the 1980s the beetle has slowly wormed its way north from Brazil. Five years ago it reached Colombia, where it now infests 680,000 of the 900,000 hectares planted with coffee. The fear is that by 2000 all Colombian coffee farms will be affected.

The International Coffee Organisation (ICO) says this minute parasite now annually costs Latin America's coffee growers $500m in lost production.

Colombia's national coffee growers' federation has just reported that production for the July–September quarter will be no more than 1.5m 60kg bags, well below normal average exports of 900,000 bags a month, partly as a consequence of the beetle's activities.

There is growing concern that 1997 will see a global shortage of arabica coffee, which in May drove prices to a 20-year peak. It seems that Colombia – which specialises in arabica and is the world's second biggest coffee producer, after Brazil – may this year harvest less than 10m bags, compared with 13m in 1996.

"The beetle is coffee's most damaging insect pest on a worldwide basis. Given there has been a deficit of arabica production over consumption for the past four years, of as much as 8m bags annually, there's an urgent need to control it," says Mr Pablo Dubois, head of operations at the ICO.

Controlling the beetle has been largely limited to spraying plantations with the insecticide endosulfan – which is highly toxic and has no human antidote.

In any case, the borer beetle's life-cycle militates against the efficacy of such pesticides. It bores into the coffee cherry and often the bean itself where the female lays eggs.

Males never leave the tunnels eaten into the beans; newly-fertilised females only briefly exit to find new beans. Once the beetle is inside the bean, it is relatively protected from sprayed-on pesticides.

Some Colombian coffee farmers may be able to give up chemicals entirely — Timothy Ross

Colombian arabica has long had a high reputation, particularly in the US, for purity, which increasing use of insecticides will damage.

However, there are now some encouraging alternatives to poison.

By the end of this year the International Institute of Biological Control (IIBC), part of CAB International, a 40-member inter-governmental organisation, in conjunction with Cenicafé, the Colombian Coffee Research Institute, will have concluded a four-year project aimed at developing bio-technological methods of controlling the berry borer in Colombia.

The IIBC/Cenicafé team has adopted a multi-pronged approach involving spraying on the coffee bushes a naturally-occurring parasitic fungi, *Beauveria bassiana*; introducing from Africa three types of tiny parasitic wasp that inhabit and kill the borer; and encouraging farmers to adopt tidy habits, clearing and destroying all dropped berries, thus cutting the risk of spreading the infestation.

"Each of these contribute perhaps 5 to 10 per cent mortality rates, so they shouldn't be regarded as a 'silver bullet'," says Dr Matthew Cock, deputy director of the IIBC. "It's all a question of introducing more mortality into the system."

"All coffee producers now suffer from this pest, not least Colombia. However, on the basis of this research I think Colombia is further down the road towards a solution," he adds.

"It's now quite practical to think that with this integrated management, Colombian farmers may in some areas be able to give up using chemicals entirely."

The IIBC's work on this pest is now going global. With financial backing from the Common Fund for Commodities (the Amsterdam-based organisation established in 1989 by UNCTAD to provide finance for commodity projects), as well as from France, the UK and the US Department of Agriculture, the ICO has just started applying the borer beetle research from Colombia to six other leading coffee producers – Ecuador, Guatemala, Honduras, Jamaica, Mexico and India.

Dr Cock's project still has a couple of years to run, and no-one is forecasting a swift termination for the berry borer beetle. After all, the parasitic wasps now being introduced to Colombia have been in Africa as long as their favoured food, the berry borer. But in time, bio-technicians may prove much better allies of the coffee farmer – protecting both his plants and coffee's vital reputation – than the chemists.

Gary Mead

High stocks put pressure on oil

MARKETS REPORT

By Gary Mead and Kenneth Gooding

The steady recent downward pressure on oil prices saw the benchmark Brent blend July future down 6 cents a barrel to $17.65 in late trading yesterday, following a 62 cent plunge on Friday.

Brent oil prices on London's International Petroleum Exchange have now fallen $7 a barrel since January, driven down by relatively high world stocks which so far this year have exceeded increased demand.

Some specialists yesterday were forecasting a price range of $15 to $18 a barrel for the rest of this year. Further depressing the market is the probable resumption of supplies from Iraq in the next few weeks.

Coffee recovered somewhat on the London International Financial Futures Exchange, with the July robusta future closing $67 higher at $1,890 a tonne.

On the Coffee, Sugar and Cocoa Exchange in New York, the July future for arabica pulled back some of last week's losses; in early trading it was up 8.75 cents a pound to 246 cents. Worries persisted about frost in Brazil, but local forecasts see no signs of damaging cold.

Platinum and palladium markets quietened after the pandemonium last week that sent prices soaring. Traders said there was virtually no business and not all market participants were offering forward prices.

Palladium closed in London up another $2 an ounce at $226 while platinum eased back to close at $466.5 an ounce, down $23.5.

Bureaucratic hold-ups have prevented all exports this year from Russia, the biggest palladium producer and second biggest producer of platinum. One Japanese trader in London said he was confident deliveries from Russia to Japan, the biggest consumer, would start early in July, but it was not clear how much metal would be in the first shipment.

"Japanese end-users are very unhappy about the delay. When deliveries start again I am sure they will begin stockpiling in order to try to avoid this problem in the future. In the long term they will be trying to find substitutes for palladium," he added.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1581.5-82.5	1605.5-06.0
Previous	1572-3	1596-7
High/low		1611/1602
AM Official	1580-81	1604.5-5.0
Kerb close		1603-04
Open int.	261,054	
Total daily turnover	70,720	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1450-55	1475-77
Previous	1448-53	1471-5
High/low		1480/1475
AM Official	1452-3	1478-80
Kerb close		1472-75
Open int.	5,275	
Total daily turnover	4,684	

■ LEAD ($ per tonne)

Close	626-27	639-40
Previous	632.5-3.5	645-6
High/low	625	645/637
AM Official	625-6	638-8.5
Kerb close		641-42
Open int.	35,549	
Total daily turnover	7,371	

■ NICKEL ($ per tonne)

Close	7155-65	7270-75
Previous	7225-35	7330-40
High/low	7190/7180	7340/7240
AM Official	7180-90	7290-91
Kerb close		7250-55
Open int.	53,211	
Total daily turnover	12,632	

■ TIN ($ per tonne)

Close	5565-75	5610-15
Previous	5705-15	5730-40
High/low		5710/5580
AM Official	5650-60	5685-90
Kerb close		5575-85
Open int.	16,676	
Total daily turnover	4,684	

■ ZINC, special high grade ($ per tonne)

Close	1332-33	1356-57
Previous	1347.5-8.5	1371-2
High/low	1348	1371/1351
AM Official	1341-1.5	1364-4.5
Kerb close		1355-56
Open int.	94,177	
Total daily turnover	17,821	

■ COPPER, grade A ($ per tonne)

Close	2554-57	2487-88
Previous	2549-52	2486-7
High/low	2557	2495/2484
AM Official	2556-7	2486-6
Kerb close		2488-89
Open int.	139,410	
Total daily turnover	51,542	

■ LME AM Official £/$ rate: 1.6386
LME Closing £/$ rate: 1.6295

Spot: 1.6353 3 mths: 1.6319 6 mths: 1.6283 9 mths: 1.6253

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	117.25	+0.25	117.25	116.50	348	2,278
Jul	117.55	+0.40	118.00	116.60	3,304	31,851
Aug	115.45	+0.50	115.50	115.50	117	2,541
Sep	114.45	+0.40	114.70	113.50	585	7,211
Oct	112.35	+0.30	111.80	111.80	23	1,111
Nov	110.95	+0.25	110.00	110.00	13	1,221
Total					4,590	57,917

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	343.80-344.30		
Opening	343.30-343.60		
Morning fix	343.85	210.435	485.316
Afternoon fix	344.25	210.422	493.551
Day's High	344.50-344.80		
Day's Low	343.70-344.00		
Previous close	344.20-344.70		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.01	6 months	4.14
2 months	4.04	12 months	4.18
3 months	4.08		

Silver Fix	p/troy oz.	US cts equiv.
Spot	293.85	481.35
3 months	297.50	486.25
6 months	301.50	491.75
1 year	310.05	503.80

Gold Coins	$ price	£ equiv.
Krugerrand	344-348	211-212
Maple Leaf	-	-
New Sovereign	80-83	49-51

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	343.9	+0.7	344.4	343.0	108	489
Aug	346.3	+0.6	347.3	345.5	27,040	72,367
Oct	348.8	+0.6	349.2	348.0	161	7,528
Dec	351.3	+0.6	351.8	350.2	661	26,148
Feb	353.8	+0.6	353.7	353.7	194	9,462
Apr	356.2	+0.7	-	-	234	3,972
Total					28,395	159,895

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jul	451.1	-3.8	459.5	447.0	4,476	13,248
Oct	423.6	-1.3	429.0	418.0	1,674	5,157
Jan	416.1	-1.3	424.0	415.0	16	1,303
Apr	414.1	-1.3	-	-	2	22
Total					6,168	19,730

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Jun	209.90	-4.10	225.00	207.00	100	297
Sep	174.90	-4.10	186.00	172.00	274	6,888
Dec	164.90	-4.25	178.15	171.00	76	481
Jun	164.90	-4.25	-	-	-	95
Total					374	7,761

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Jun	472.6	-4.3	-	485.0	14	2
Jul	474.0	-4.3	482.0	469.5	29,168	52,080
Sep	478.6	-4.1	486.5	475.0	1,111	10,400
Dec	485.2	-3.9	492.5	481.0	884	7,762
Jan	487.3	-3.8	-	-	-	17
Mar	492.1	-3.7	499.0	489.5	131	8,539
Total					31,405	88,577

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	18.69	-0.10	18.98	18.60	74,572	81,616
Aug	19.05	-0.08	19.23	18.95	47,182	61,949
Sep	19.20	-0.09	19.46	19.16	16,103	35,051
Oct	19.38	-0.05	19.48	19.37	7,429	21,915
Nov	19.52	-0.02	19.68	19.52	3,809	17,507
Dec	19.62	+0.02	19.72	19.60	7,268	36,574
Total					167,799	404,893

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	17.60	-0.10	17.78	17.50	8,390	46,417
Aug	17.88	-0.04	18.03	17.82	11,013	61,422
Sep	18.05	+0.05	18.22	18.05	5,551	14,691
Oct	18.25	+0.10	18.37	18.22	1,183	9,886
Nov	18.40	+0.16	18.50	18.35	381	7,022
Dec	18.49	+0.18	18.57	18.45	900	11,822
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	51.45	-0.07	52.00	51.30	28,143	39,834
Aug	52.20	-0.16	52.75	52.00	10,211	21,459
Sep	53.10	-0.16	53.75	53.05	3,915	11,794
Oct	54.10	-0.06	54.70	54.10	3,420	11,241
Nov	55.05	-0.01	55.70	55.00	1,965	9,833
Dec	55.90	-0.01	56.15	55.80	4,187	15,854
Total					58,478	138,157

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	160.00	-4.25	162.00	159.75	6,627	14,039
Jul	161.75	-4.00	163.50	161.80	8,343	16,373
Aug	163.75	-4.00	165.25	163.50	2,217	9,204
Sep	165.75	-4.00	167.00	165.50	2,310	5,998
Oct	168.25	-3.75	169.25	168.00	824	5,558
Nov	170.25	-3.50	171.00	170.25	571	2,462
Total					23,400	67,519

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	2.150	-0.038	2.195	2.150	13,383	33,773
Aug	2.160	-0.036	2.205	2.160	4,063	23,477
Sep	2.160	-0.023	2.185	2.155	1,932	18,157
Oct	2.180	-0.016	2.190	2.170	1,353	20,024
Nov	2.320	-0.008	2.330	2.300	489	9,147
Dec	2.450	-0.009	2.465	2.450	644	12,546
Total					23,888	195,078

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	56.50	-0.63	57.60	56.40	17,105	40,375
Aug	56.40	-0.31	57.09	56.10	8,350	16,630
Sep	55.90	-0.25	56.40	55.80	2,155	5,522
Oct	54.95	-	55.15	54.85	388	3,479
Nov	54.50	-	54.80	54.50	128	1,858
Dec	54.25	+0.65	54.75	54.25	442	4,105
Total					28,758	78,868

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	85.40	+0.40	85.00	84.75	16	1,047
Sep	90.10	+0.85	-	-	-	186
Nov	92.10	+0.85	92.10	91.50	89	3,627
Jan	94.10	+0.85	94.10	94.05	15	1,679
Mar	96.10	+0.70	96.10	96.10	10	825
May	98.10	+0.70	97.40	97.40	-	467
Total					138	7,842

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Jul	367.50	+8.00	369.00	356.50	12,406	44,061
Sep	376.25	+8.50	377.00	365.50	6,092	19,330
Dec	388.00	+8.50	389.00	378.00	2,753	17,314
Mar	392.00	+8.00	392.50	382.00	288	2,256
May	376.50	+5.00	-	371.50	3	83
Jul	372.00	+6.00	370.00	366.00	28	689
Total					21,574	83,722

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Jul	274.00	-	274.50	268.25	21,141	107,979
Sep	261.00	-0.75	261.50	257.00	4,875	35,039
Dec	258.00	-1.25	258.00	254.25	12,122	112,726
Mar	263.75	-1.75	264.25	261.00	357	13,511
May	268.00	-1.5	268.00	265.00	107	1,520
Jul	271.50	-1.5	271.50	268.25	70	3,464
Total					38,728	276,721

■ BARLEY LIFFE (100 tonnes; £ per tonne)

Sep	86.25	+0.25	86.25	86.25	5	35
Nov	88.55	+0.55	88.25	88.25	2	1,132
Jan	90.55	+0.55	90.55	90.55	9	171
Mar	92.55	+0.55	-	-	-	19
May	94.55	+0.55	-	-	-	3
Total					16	1,360

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Jul	811.00	-24.25	832.00	805.50	23,726	72,933
Aug	771.50	-17.25	786.00	764.00	5,413	25,604
Sep	709.50	-11	718.00	705.00	1,681	9,753
Nov	679.00	-7.75	683.00	675.00	8,416	51,248
Jan	681.25	-8	683.50	677.00	253	7,270
Mar	685.00	-8	687.00	682.00	149	1,870
Total					40,200	170,713

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Jul	23.23	-0.23	23.50	22.96	5,696	43,792
Aug	23.44	-0.24	23.65	23.18	3,581	17,334
Sep	23.64	-0.23	23.65	23.38	1,195	9,198
Oct	23.75	-0.23	23.75	23.46	517	10,601
Dec	23.96	-0.23	24.10	23.73	1,618	19,599
Jan	24.15	-0.22	24.15	23.95	71	1,473
Total					12,994	103,994

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Jul	264.8	-8.8	271.6	263.6	8,363	38,978
Aug	247.6	-8	251.5	246.5	3,083	18,577
Sep	234.5	-7.1	240.6	234.0	1,153	11,656
Oct	224.9	-4.1	227.0	223.5	1,221	11,488
Dec	218.5	-3.2	220.0	218.0	2,727	21,996
Jan	215.5	-3.5	216.5	215.5	36	2,585
Total					16,925	108,841

■ POTATOES LIFFE (20 tonnes; £ per tonne)

Nov	56.0	-2.0	-	-	-	11
Mar	100.0	-8.5	-	-	-	-
Apr	103.0	-9.0	109.0	101.0	153	847
May	120.0	-8.0	-	-	-	-
Jun	126.0	-9.0	-	-	-	-
Total					153	858

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Jun	1225	+15	1225	1215	40	418
Jul	1145	+13	1145	1140	30	1,225
Aug	1135	+18	1150	1145	33	359
Oct	1320	-	1320	1320	11	583
Jan	1340	-	-	-	-	57
Total					166	1,642

	Close	Prev
BFI	1246	1247

FUTURES DATA
All futures data supplied by CMS.

Tea
Demand for tea was mixed, The Tea Brokers' Association reports. Only fair demand prevailed for landed teas. Bright East Africans were generally between 5 pence and 10 pence lower, with only selected lines firm. Colouy mediums were steady to 5p lower and there were some withdrawals among plainer sorts. There was good demand for offshore teas. Bright teas were about steady and colouy Central Africans were fully firm to dearer. Quotations for this sale. Landed: best available 166p; good 158p; good medium 147p; medium 140p; low medium 125p (nom). The highest price realised this week was 166p for a Kenya PF1.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1002	+7	1002	988	1,746	22,337
Sep	1022	+3	1022	1009	2,546	24,058
Dec	1022	+2	1021	1010	542	30,136
Mar	1033	+1	1032	1023	607	31,358
May	1045	+1	1043	1035	304	16,382
Jul	1057	+1	1053	1052	13	5,295
Total					6,079	149,843

■ COCOA CSCE (10 tonnes; $/tonnes)

Jul	1430	+17	1432	1410	5,197	17,117
Sep	1471	+16	1473	1451	3,765	20,262
Dec	1510	+16	1511	1492	569	20,134
Mar	1541	+15	1541	1525	495	21,807
May	1561	+15	1550	1545	21	8,570
Jul	1581	+17	-	-	12	575
Total					10,079	99,838

■ COCOA (ICCO) (SDR's/tonne)

Jun 6	Price	Prev. day
Daily	1118.90	1116.32

■ COFFEE LIFFE (5 tonnes; $/tonne)

Jul	1890	+67	1890	1831	1,615	16,339
Sep	1925	+75	1925	1865	2,312	22,357
Nov	1940	+80	1935	1880	537	8,817
Jan	1930	+80	1920	1867	164	2,875
Mar	1920	+85	1910	1880	13	537
May	1920	+85	1865	1865	3	30
Total					4,641	50,955

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Jul	253.30	+16.05	256.00	235.50	3,995	7,846
Sep	223.60	+9.45	225.50	214.00	2,950	7,939
Dec	193.30	+8.65	193.45	186.00	651	4,702
Mar	178.90	+7.25	180.00	175.00	292	2,282
May	174.50	+8.50	174.00	174.00	87	516
Jul	170.05	+8.00	-	-	4	136
Total					7,966	23,563

■ COFFEE (ICO) (US cents/pound)

Jun 6		Prev. day
Comp. daily	165.93	167.26
15 day average	168.74	190.00

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

Aug	326.1	+0.1	326.5	324.9	680	15,663
Oct	316.6	+0.6	316.7	315.5	381	8,111
Dec	313.9	+0.6	314.2	313.0	138	2,792
Mar	314.1	+0.9	314.2	313.0	131	2,540
May	313.1	+0.3	312.0	312.0	77	784
Aug	312.3	+0.2	311.5	311.5	3	596
Total					1,332	31,916

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Jul	11.45	-	11.47	11.37	9,386	78,418
Oct	11.31	+0.05	11.32	11.22	5,124	63,353
Mar	11.19	+0.05	11.20	11.11	2,309	29,958
May	11.07	+0.03	11.07	11.02	338	8,747
Jul	11.00	+0.03	10.97	10.97	173	3,194
Oct	10.90	+0.01	10.86	10.81	84	933
Total					17,414	183,188

■ COTTON NYCE (50,000lbs; cents/lbs)

Jul	72.12	-0.25	72.60	71.90	9,093	30,882
Oct	74.09	-0.16	74.45	74.00	1,302	6,428
Dec	74.74	-0.31	75.15	74.65	4,480	28,633
Mar	75.98	-0.30	76.10	75.87	185	4,875
May	76.80	-0.25	76.65	76.45	43	1,148
Jul	76.80	-0.30	77.10	76.82	46	524
Total					15,569	74,886

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jul	76.90	-0.90	77.75	76.50	1,353	15,682
Sep	79.30	-0.80	80.25	79.00	603	8,952
Nov	81.80	-0.80	83.00	81.80	163	3,821
Jan	84.50	-0.60	85.10	84.50	42	1,686
Mar	87.20	-0.50	88.00	87.50	29	1,241
May	90.05	-0.15	90.70	90.70	-	286
Total					2,181	31,697

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jun 9	Jun 6	month ago	year ago
2009.9	2008.8	1970.8	2105.0

■ CRB Futures (Base: 1967 = 100)

Jun 6	Jun 5	month ago	year ago
246.80	246.64		

■ GSCI Spot (Base: 1970 = 100)

Jun 6	Jun 5	month ago	year ago
187.77	190.76	194.76	201.22

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-3,400	to	720,950
Aluminium alloy	-40	to	62,080
Copper	-1,750	to	130,975
Lead	-25	to	117,625
Nickel	-398	to	52,092
Zinc	-925	to	421,400
Tin	-30	to	12,260

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	63.450	-0.300	63.950	63.400	3,373	13,505
Aug	63.175	-0.525	64.100	63.150	6,118	46,205
Oct	66.850	-0.275	67.500	66.625	2,856	22,341
Dec	69.500	-0.150	69.900	69.500	760	10,835
Feb	70.450	-0.050	70.750	70.425	895	6,005
Apr	72.300	-	72.500	72.275	179	2,218
Total					14,622	101,781

■ LEAN HOGS CME (40,000lbs; cents/lbs)

Jun	80.425	-0.700	81.250	80.350	1,699	6,541
Jul	80.150	-1.200	81.825	79.900	2,931	10,785
Aug	78.400	-1.175	79.900	78.100	1,875	8,880
Oct	70.550	-0.725	71.750	70.290	794	6,845
Dec	66.675	-1.075	68.750	66.500	409	3,848
Feb	64.800	-1.500	66.350	64.650	105	1,499
Total					7,864	38,608

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Jul	83.675	-0.825	85.100	82.675	2,819	5,254
Aug	83.350	-0.875	84.725	82.400	1,026	2,293
Feb	74.125	+0.625	74.850	73.200	99	461
Mar	73.000	+0.500	74.200	74.000	1	14
Total					3,946	8,019

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jul	Oct	Jul	Oct
1575	37	76	18	38
1600	24	62	30	49
1625	15	50	45	61
■ COPPER (Grade A) LME	Jul	Oct	Jul	Oct
2550	54	48	51	160
2600	33	35	80	195
2650	19	25	115	234
■ COFFEE LIFFE	Jul	Sep	Jul	Sep
1800	139	276	49	151
1850	109	258	69	183
1900	84	240	94	215
■ COCOA LIFFE	Jul	Sep	Jul	Sep
975	33	74	6	27
1000	18	59	16	37
1025	8	48	31	49
■ BRENT CRUDE IPE	Jul	Aug	Jul	Aug
1800	5	62	-	68
1850	-	38	-	93
1900	-	30	128	120

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$17.20-7.25	-0.100
Brent Blend (dated)	$17.03-7.05	-0.530
Brent Blend (Jul)	$17.63-7.65	-0.430
W.T.I.	$18.68-8.70z	-0.54

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$200-202	-7
Gas Oil	$162-163	-4
Heavy Fuel Oil	$83-85	+2.5
Naphtha	$179-181	-2
Jet fuel	$179-181	-2
Diesel	$167-168	-3.5

■ NATURAL GAS (Pence/therm)

Bacton (Jul)	10.00-10.25	

Petroleum Argus. Tel. London (0171) 359 8792

IPE (Jul)	10.165	+0.030

■ OTHER

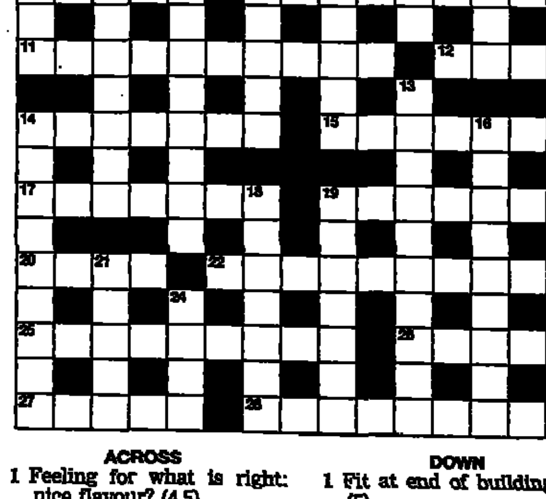
Gold (per troy oz)♣	$344.05	-0.50
Silver (per troy oz)♣	481.00c	-3.00
Platinum (per troy oz.)	$475.00	-22.00
Palladium (per troy oz.)	$226.00	-2.00
Copper	122.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.09r	
Tin (New York)	284.5	
Cattle (live weight)	90.05p	-1.92*
Sheep (live weight)	110.08p	-18.13*
Pigs (live weight)†	97.77p	-2.22*
Lon. day sugar (raw)	$261.60	+1.10
Lon. day sugar (wte)	$332.00	-0.50
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jul)♥	72.50p	
Rubber (Aug)♥	72.50p	
Rubber (KL RSS No1)	284.0x	-1.5
Coconut Oil (Phil)§	640.0y	-2.5
Palm Oil (Malay.)§	535.0w	-2.5
Copra (Phil)§	$410.0y	-2.5
Soyabeans (US)	221.0	
Cotton Outlook'A' index	79.95c	-0.35
Wooltops (64s Super)	435p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. w Jun y May/Jun♥ z Jul London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 2,879 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,397 Set by QUARK



ACROSS
1 Feeling for what is right: nice flavour? (4,5)
6 Some offshore currents to come round again (5)
9 Holiday snap (5)
10 On trial, undergoing repairs? (2,3,4)
11 A comfortable situation, yet see star in trouble (4,6)
12 A kind of sign of the new age? (4)
14 One to cut down bit of heat in the boiler (7)
15 NT healer (not eastern) possibly to hold spellbound (7)
17 For example oxygen device mainly for a kind of flu (7)
19 Obstructed deep mid off (7)
20 Wild party in Gravesend (4)
22 I offer warnings in the main (10)
25 One popular in child's play (5,4)
26 Man seen in several photographs (5)
27 Hard to deal with reverses in old age (5)
28 Airs feelings (9)

DOWN
1 Fit at end of building wall (5)
2 Items of footwear always being worn out? (9)
3 Separates acts in a play (5,5)
4 Right reverend tries to change troublemaker (7)
5 The large number in Exeter getting a break is the limit (7)
6 Animals reared in the marsh grass (4)
7 Near the end (5)
8 I'm fired once again (9)
13 Apply preservative and prevent total collapse (4,3,3)
14 It's impossible to draw on if there's no light (9)
16 Made extra effort regarding drink to a little degree (9)
18 Monster spread of ham and rice (7)
19 Get left? (7)
21 See nothing in the recorded film (5)
23 The moral significance of little Ethel getting very large? (6)
24 My short article's a bit of fiction (4)

Solution to Saturday's prize puzzle on Saturday June 21.
Solution to yesterday's prize puzzle on Monday June 23.

هكذا نص الأصل

هكذا من الاصيل

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Rothschild Asset Management - Contd.

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

Murray Johnstone (Dublin) Ltd

Barclays Global Investors Ireland Ltd

[illegible]

Odey Asset Management Ltd

Old Mutual International Fd Mngrs Ltd

Baring International Fd Mgrs (Ireland) Ltd

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Abtrust Fund Mngrs Luxembourg SA (u)					
4 Boulevard Royal L 2449 Luxembourg 00 352 227001					
Abtrust Atlas Fund					
Global Cap Portfolio		$4.179		+0.007	-
United States Portfolio		$8.459		+0.080	-
Cont'l Europe Portfolio	0	DM8.068		+0.034	-
Japan Portfolio		Y0 672		+0.002	-
Pacific Portfolio		$8.621		-0.022	-
Gold Portfolio		$5.535		+0.012	-
UK Growth of Income		£2.374		+0.022	3.81
Dollar Portfolio		$7.865		+0.001	7.03
Sterling Portfolio		£1.045		+0.001	6.30
Aetna Master Fund (u) (x)					
21 avenue de la Liberte, L-1931, Lux 00 352 2954 941					
Australasian NAV		A$18.79		-0.01	-
Austrian Nat NAV		Sch89.72		-0.10	-
Belgo/Lux NAV		BFr983.01		+6.80	-
Dutch Nat NAV		Dfl52.79		+0.32	-
French Nat NAV		FFr158.71		+1.58	-
German Nat NAV		DM23.01		+0.11	-
Hongkong Nat NAV		HK$145.02		-0.05	-
Italian Nat NAV		L13811		+24	-
Japanese Nat NAV		Y1255		-2	-
Spanish Nat NAV		Pta1806		-13	-
UK Nat NAV		£11.58		+0.19	-
United States Dlr Res		$11.18		—	-
Prices quoted are "A" shares					
American Phoenix Investment Portfolios (u)					
13 rue Goethe, L-1637 Luxembourg 00 352 404646211					
European Multinational Pflo		Ecu23.10		+0.08	-
European Multinational Pflo		$26.16		+0.29	-
European Multinational Pflo		£16.02		+0.1	-
European Multinational Pflo		L44578		+345	-
European Multinational Pflo		DM44.90		+0.07	-
Global Multinational Pflo		Ecu21.25		+0.11	-
Global Multinational Pflo		$24.05		+0.29	-
Global Multinational Pflo		£14.73		+0.11	-
Global Multinational Pflo		L40570		+203	-
Global Multinational Pflo		DM41.37		+0.11	-
US Growth Companies		$15.86		+0.21	-
US Growth Companies		£09.71		+0.08	-
US Growth Companies		L39910		+210	-
US Growth Companies		DM27.28		+0.1	-
US Real Estate Securities		$14.90		+0.05	-
US Real Estate Securities		£09.12		-0.02	-
US Real Estate Securities		L35570		-58	-
US Real Estate Securities		DM25.82		-0.18	-
BAII Asset Management Ltd					
10 Piccadilly, London W1V 0EE 0171 734 3700					
Intermarket NAV May 30 F		$852.56		+3.44	-
Interportfolio Fund					
Convertible (US$) May 30		$733.82		+10.92	-
Convertible (FFr) May 30 F		FFr3739.55		+30.85	-
Comfort (US$)	2	$335.17		+0.50	-

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Fleming Group - Contd.					
FFF Global Conv F		$18.82	19.91	+0.11	-
FFF India H		$10.48	11.08	-0.09	-
FFF Intl Bond F		$13.93	14.73	+0.14	-
FFF Intl Equity F		DM88.84	93.77	+1.88	-
FFF Japanese		$17.28	18.28	+0.33	-
FFF Japanese Smaller Cos F		$6.89	7.29	+0.20	-
FFF Latin American		$14.70	15.55	+0.05	-
FFF Pacific		$25.02	26.47	+0.08	-
FFF Sterling Bond		£1.11	1.17	+0.01	0.1
FFF UK Enterprise		£5.90	6.24	+0.12	-
FFF US Discovery		$44.70	47.06	+0.79	-
Fleming Flagship Series II (Daily Dealing)					
DM Class F		DM12.60		—	0.0
FFr Class F		FFr64.8		+0.02	0.0
ITL Class F		L22420		+15.00	0.1
£ Class F		£5.29		—	0.1
US$ Class F		$12.10		+0.01	0.1
Oasis Fund Sicav					
International Equity F	5 CE	$11.12	11.7082	—	-
Foreign & Colonial Emerging Markets Ltd (u)					
Exchange Hs, Primrose St, Ldn, EC2A 2NY 0171-628 1234					
F&C Emerging Markets					
Argentinian Inv Co F		$26.87		+0.29	-
Brazilian Inv Co SICAV F		$54.98		+0.87	-
Colombian Inv Co SICAV F		$11.70		+0.05	-
Latin Amer Inv Co SICAV F		$13.00		+0.13	-
Mexican Inv Co SICAV F		$28.05		+0.14	-
Foreign & Colonial Portfolios Fd Sicav (u)					
33 Boulevard Prince Henri, L-1724 Lux 00 352 2280 211					
Amr Smlr Cos Eq F		$41.30		+0.24	-
Japanese Smlr Cos Eq F		Y915.00		+3.00	-
European Smlr Cos Eq F		Ecu17.58		-0.05	-
Emerging Asian Eq F		$22.10		+0.08	-
Sterling Beta F		£10.15		+0.02	-
Sterling Distribution F		£9.86		+0.10	-
Frontrunner I (u)					
672 rue de Neudorf, Luxembourg 00 352 4367339					
European Equities		Ecu162.95		—	-
Global Bonds		DM172.12		—	-
Global Bonds		DM150.93		—	-
Sterling Fund		£191.39		—	-
Danish Bonds		DKr178.39		—	-
Swedish Bonds	3	SKr126.60		—	-
German Bonds		DM103.68		—	-
Dollar Bonds	3	$100.93		—	-
Scandinavian Equities		Ecu290.63		—	-
Far East Equities		$94.62		—	-
North American Equities	6	$101.29		—	-
Danish Kroner Reserve		DKr110.74		—	-
Swedish Kroner Reserve		SKr110.14		—	-
German Mark Reserve		DM107.88		—	-
US Dollar Reserve	3	$100.45		—	-
ECU Reserve		Ecu110.39		—	-

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الاصل

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CHEMICALS - Cont.

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DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INSURANCE - Cont.

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Cont.

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TEXTILES & APPAREL - Cont.

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind R		£25	–	£29½	£20¼	1,815	3.0	◆
Barlow	‡†	893	-13	972	651	1,349	2.2	13.5
Gold Flds Prop R	†	172	-4	172½	120	17.8	5.1	13.0
SA Brews		£10½xd	+½	£10½	£13¼	8,318	2.2	◆
Standard Bank		£29	+½	£29¾	£21	3,471	1.2	26.1
Tiger Oats	†	1020xd	+5½	1080	770	1,387	1.8	19.8
Tongaat-Hulett		797¼	-3	842	676¼	725.2	2.5	◆

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- " Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ◆ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ‡ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ✦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ◆ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1995
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro-forma figures
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xc ex capital distribution.

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LONDON STOCK EXCHANGE

Footsie surges to brink of record close

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

UK stocks built substantially on last Friday's showing, kicking off the day in strong fashion, stuttering in midsession, and then surging ahead to close at the day's high, boosted by another surge on Wall Street.

The Dow Jones Industrial Average, which hit a new peak on Friday in the wake of the May non-farm payroll report, jumped over 50 points shortly after the start of trading yesterday.

The mid-morning setback in London was triggered by a weak performance by the gilts market. Gilts were hit by a batch of stronger than expected economic news, which was viewed by some as having inflationary implications. Both manufacturing output and producer price data were higher than expected.

But a continuation of the recent intense speculation that at least one bid or merger is being prepared in the financial sector kept the banks and insurances on the boil yesterday. "The institutions are terrified of being underweight in the financials when a bid or merger is unveiled," said one marketmaker.

The weekend press was full of stories concerning recent talks between National Westminster Bank and Abbey National and these two stocks were strongly bought and sharply higher for much of yesterday's session.

The most intense rumours focused on NatWest, with speculators pinning their hopes that the bank would appease disaffected shareholders by pulling off a big deal in the short to medium term. Among the wilder suggestions doing the rounds of trading desks yesterday was that a deal between NatWest and the newly floated Halifax was a possibility, as was a NatWest bid for Alliance & Leicester.

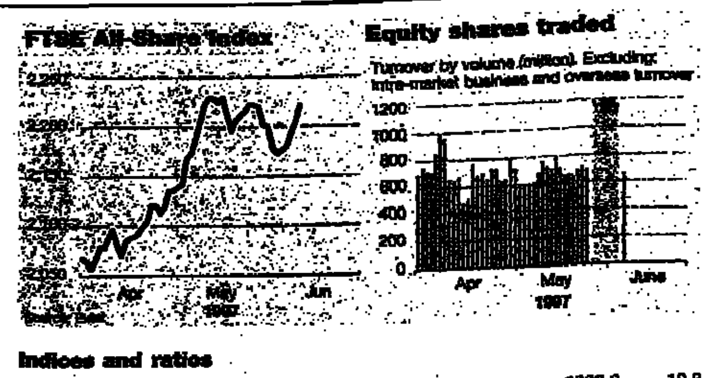
Powered mostly by those big gains in financials and elsewhere, the FTSE 100 index ran up 41.7 to 4,686.7, only 7.32 below its all-time closing record level. Other indices were less successful, however, extending their poor total returns compared with Footsie over recent months.

In May, Footsie returned 4.5 per cent against 0.2 per cent for the FTSE 250 and the SmallCap, and 3.4 per cent for the All-Share.

Yesterday, the FTSE 250 was burdened by a poor showing by the utilities, which continued to register unease over the forthcoming windfall profits tax.

At the finish the FTSE 250 was 10.9 firmer at 4,484.1, helped by a firm housebuilding sector that responded to press reports that the government had dropped plans to abolish mortgage interest rate relief. The SmallCap eased 0.9 to 2,279.5. Turnover reached 756.9m shares.

The Merrill Lynch Gallup Survey of UK fund managers, carried out before the increase in UK interest rates, revealed that fund managers have downgraded their forecasts for earnings per share growth in the face of sterling strength; the average forecast for eps growth for 1997 is 8.5 per cent, down from last October's peak of 10 per cent. The survey also showed that buying of gilts over the last two months has been the greatest since the first quarter of 1995.



Indices and ratios

FTSE 100	4686.7	+41.7	FT 30	3002.8	19.3
FTSE 250	4484.1	+10.9	FTSE Non-Fins p/e	18.77	18.71
FTSE 350	2265.2	+17.3	FTSE 100 Fut Jun	4709.0	+30.0
FTSE All-Share	2222.17	+15.76	10 yr Gilt yield	7.16	7.09
FTSE All-Share yield	3.50	3.52	Long gilt/equity yld ratio	2.05	2.02

Best performing sectors
1 Banks: Retail .... +2.3
2 Life Assurance .... +1.2
3 Insurance .... +1.2
4 Pharmaceuticals .... +1.0
5 Food Producers .... +1.0

Worst performing sectors
1 Water .... -2.0
2 Gas Distribution .... -1.9
3 Health Care .... -0.9
4 Diversified Inds .... -0.4
5 Paper: Pckg .... -0.0

Bid talk engulfs banks

By Joel Kibazo and Martin Brice

The market spotlight remained firmly fixed on the banking sector as rumours of corporate activity continued to circulate.

The focus was very much on National Westminster, now known to have sought a merger deal with Abbey National. Analysts believe National Westminster will return to Abbey with a sweetened offer and the continued prospect of such a deal drove the group's shares sharply ahead, making it one of the best performing stocks of the session. They gained 35¼ or 4.5 per cent to close at 816p. Volume was again heavy, reaching 14m.

"Everyone feels National Westminster has to do something, so they had better hurry up and do it while they have the goodwill of the investment community," said one banks specialist.

Meanwhile, Abbey National shares appreciated 24 to 883½p, in trade of 7m, with talk in the market returning to the prospect of the group linking up with Prudential Corporation. Such a deal would be "a merger made in heaven" said one market specialist. Shares in Prudential rose 15½ to 651p.

Speculation about corporate activity boosted trading in the retail banking sector as a whole. Barclays gained 34½ to £12.11½p while Lloyds TSB put on 17½ to 619p.

Bank of Scotland rose on a combination of bid talk and reports suggesting Cazenove had recommended the shares. Turnover of 7.5m also pointed to buying ahead of today's annual meeting. The shares ended the day as the best performer in the FTSE 100 having risen 19½ to 384p.

Standard Chartered, which fell sharply last week following a clutch of profit downgrades, was back in favour. The shares appreciated 19½ to 959p, after trade of 3.6m.

US investment bank Lehman Brothers yesterday urged investors to buy the stock. Analysts at the bank said: "Although the group has warned that cost growth is likely to resume this year, we remain confident that revenue growth is likely to be roughly twice as fast."

Halifax shares closed 13½ up at 749p, the highest price since last Monday week, when the shares peaked at 776p. Dealers said there was evidence that the big institutions had begun to chase the shares; turnover reached 10m.

Granada gains

Granada Group was the focus of attention as traders mulled over rumours, confirmed after the market had closed, that it was to bid for Yorkshire-Tyne Tees Television Holdings. A statement made by the two at 6pm confirmed that they were in preliminary talks regarding an offer by Granada for Yorkshire at £11.75 a share.

Granada shares were up 12 to 890p, almost 2 per cent, while Yorkshire Tyne-Tees was up 52½ to £11.60p.

A merger would create a trans-Pennine ITV region. "I think the story is spot-on," said trader before the market closed.

Mr Bruce Jones at Merrill Lynch said: "Granada won't overpay because Yorkshire is not central to its strategy."

Analysts said that a deal at £12 a share would dilute Granada's earnings by about 1.5 per cent but synergies could enhance earnings by 2 or 3 per cent, suggesting the price is right.

Granada also said it had sold Brown's Hotel in London's Mayfair, marking progress on its hotels disposals.

Elsewhere in the leisure sector, shares in Rank fell 15 to 433½p in volume of 7.4m, making it the eighth most traded Footsie stock. Sentiment in the stock was not helped by UBS yesterday shifting its stance from "buy" to "hold" after its analysts took a close look at the sale of its stake in Rank Xerox last week.

Shares in Bass continued their poor showing of last week and fell 8 to 746p amid continuing talk of downgrades following a series of meetings with analysts.

Sentiment was not helped by James Capel yesterday shifting its stance from "hold" to "sell". Its analysts suggest it is difficult to see where growth will come from during the next five years, and believe growth could slow from a historical rate of about 11 per cent to about 6 per cent a year.

Investors are also said to be uneasy at a decision by Mrs Margaret Beckett, trade and industry secretary, on the planned merger with Carlsberg-Tetley. There may be a result this week, and analysts believe that, even if the deal is allowed, it could be earnings-dilutive.

In the retail sector, Boots stayed in favour with investors, and rose 7½ to 708½p in volume of 1.9m, helped by a bullish note from Mr Rowan Morgan at Nikko. He rates the shares a "buy" and believes the company, which last week announced a special 44.2p dividend, could be in a position to repeat the trick within two years. He added: "There is more going on in Boots the Chemists than I think the market has given credit for." He also thinks a profit from the Do It All side is in sight for next year.

Among utilities, water and electricity group Hyder rose 5½ to 824½p. The group reported improved figures but it was the better-than-expected increase in the dividend that cheered analysts.

Mr Kevin Lapwood, newly arrived at MeesPierson, is optimistic about "dividend growth in the future regardless of what happens on the windfall tax." He regards the shares as cheap.

A two-way pull in Severn Trent left the shares easier at 770p. The group reports figures today and is widely expected to announce a balance sheet restructuring.

London International Group stock saw exceptionally busy trade, reaching 12m to be one of the most heavily-traded shares in the market as the company went ex-dividend yesterday. The shares eased 2 to 168p, with a block of 5m shares going through early in the day, bought at 166p and placed at 167½p. Seafield Resources rose 7 to 60½p after the oil and gas company said it had received two informal approaches.

NFC shares rose 4¼ to 138½p: sentiment in the stock was helped by the purchase by Sir Christopher Bland, chairman, of 500,000 shares in the transport group at 134p each.

McBride, the own-label household products group, rose 6 to 124½p. Following the market close, it was announced that conglomerate Wassall holds a 2.98 per cent stake in McBride.

Shares in BTR hit a 6¼ year low of 186½p, on vague fears that cash flow will not be able to cover this year's dividend. However, the more optimistic dismissed those rumours.

FT 30 INDEX

	Jun 9	Jun 6	Jun 5	Jun 4	Jun 3	Yr ago	*High	*Low
FT 30	3002.8	2983.5	2952.3	2946.3	2945.9	2766.4	3018.8	2688.8
Ord. div. yield	3.64	3.66	3.72	3.73	3.72	4.01	4.22	3.62
P/E ratio net	18.22	18.05	17.85	17.80	17.83	16.08	18.33	15.80
P/E ratio nil	18.04	17.87	17.67	17.62	17.65	15.87	18.14	15.71

FT 30 since compilation: high 3018.8 13/05/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2990.4	3002.8	3006.2	2998.3	2996.2	2989.7	2992.7	2999.0	3002.5	3007.2	2989.0

	Jun 9	Jun 6	Jun 5	Jun 4	Jun 3	Yr ago
SEAQ bargains	51,410	45,188	41,277	45,738	48,983	31,066
Equity turnover (£m)†	-	NA	NA	NA	NA	1302.0
Equity bargains†	-	NA	NA	NA	NA	35,453
Shares traded (mil)†	-	NA	NA	NA	NA	468.2

†Excluding intra-market and overseas turnover but including Crest turnover.
 *For 1997.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	841	Total Highs	156	Total contracts	37,784
Total Falls	620	Total Lows	76	Calls	18,557
Same	1,615			Puts	19,227

Jun 9 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4688.0	4709.0	+53.0	4715.0	4659.0	14086	65784
Sep	4720.0	4741.0	+53.0	4736.0	4700.0	1586	17204
Dec	4781.5	4792.0	+55.0	4781.5	4767.0	125	803

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		4483.0	+13.0			0	4370
Sep	4535.0	4535.0	+13.0	4535.0	4535.0	300	2581

■ FTSE 100 INDEX OPTION (LIFFE) (*4684.1) £10 per full index point

	4500 C	4500 P	4550 C	4550 P	4600 C	4600 P	4650 C	4650 P	4700 C	4700 P	4750 C	4750 P	4800 C	4800 P	4850 C	4850 P
Jun	217½	4	170½	8½	125	13	84½	25	52	44½	28½	74½	13½	116	5	165½
Jul	253½	26½	212	34	174½	47½	136½	60½	105	81	76½	106½	58	141	38	174½
Aug	286½	46	228½	57½	191½	70	160	89½	131	110	105	135½	83	164½	62½	197
Sep	300	59½	281½	72	224	88	193½	108½	162½	128	135½	152½	112½	180	89½	209½
Dec†	375	89½			303½	121½			238	160½			187½	211		

Calls 5,109 Puts 4,705

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4525 C	4525 P	4575 C	4575 P	4625 C	4625 P	4675 C	4675 P	4725 C	4725 P	4775 C	4775 P	4825 C	4825 P	4875 C	4875 P
Jun	188½	5½	143½	9½	101	17½	65½	31½	38	54	20½	86½	9½	125	3½	169
Jul	230½	30	189½	40	153½	52½	120	69	91½	90	67	115	47	145	31	178½
Aug	247½	51	216	63	175½	77½	143	94½	113½	114½	88½	139	67½	167½	58½	199½
Sep	278½	66½			209	85			149½	134			100	182½		
Dec†	355½	97½			288	126½			228½	164			175	207		

Calls 3,510 Puts 5,930 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
*	F.P.	3,533	655	532½	Alliance & Leic	607	+2½	L16.3	2.5	3.4	14.9
§	F.P.	91.6	1200	765	Aston Villa	800	-10	R8.8	1.8	1.4	44.0
	F.P.	4,110	308½	258½	Cable & Wireless	276	+13	-	-	-	-
	F.P.	-	102	97½	Caradon B	99½		-	-	-	-
100	F.P.	25.0	100	100	Downing HI VCT	100		-	-	-	-
§40	F.P.	3.41	42½	30	†Eagles	35		-	-	-	-
*	F.P.	1,915	312½	270½	Gallaher	277½	-3½	19.25	1.4	8.7	10.6
*	F.P.	18,800	776	714	Halifax	749	+13½	a14.84	2.1	2.5	22.4
§140	F.P.	11.4	147½	98½	Heart of Midlthn	112½	+1	-	-	-	-
§	F.P.	7.02	164½	155½	†ITG	158½		-	-	-	-
100	F.P.	3.75	125	102½	†Integrated As Mg	125		-	-	-	-
§-	F.P.	-	99	99	Intl Biotech C	99		-	-	-	-
§110	F.P.	6.17	130½	122½	†Lady in Leisure	124½		b-	-	-	-
§	F.P.	3.69	119½	112½	Longbridge Intl	117½		-	-	-	18.4
50	F.P.	19.0	54½	47½	†NMT	48½		-	-	-	-
§10	F.P.	5.14	14¼	11½	†Newmark Tech	12¼		-	-	-	-
100	F.P.	8.00	100	100	Penine AIM VCT	100		-	-	-	-
	F.P.	22.9	78½	38½	†Petra Diamonds	78½	+11	-	-	-	-
	F.P.	1.02	61	18½	†Do Warrants	61	+8½	-	-	-	-
143	F.P.	21.8	155½	150	Qualceram	155½		22.6%	-	1.5	-
§-	F.P.	71.5	227	216½	Royalblue Grp	216½		1.5	2.6	0.9	55.0
§100	F.P.	8.50	120½	112½	†SBS Group	120½	+½	L2.4	2.0	2.5	21.2
§100	F.P.	10.2	108½	102½	†Soccer Investmnt	102½		-	-	-	-
§100	F.P.	22.3	111½	107	Topps Tiles	111½		-	-	-	11.7
§3	F.P.	5.04	4	3½	Versaille Group	3½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Jun 6	% chg on day	Jun 5	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1542.97	+1.0	1527.88	2187.91	2.19	-	2187.91	1468.60
■ Regional Indices								
Africa (14)	1733.10	+2.7	1687.50	2976.00	5.12	27.60	2976.00	1687.50
Australasia (6)	1740.05	+0.6	1729.01	2476.72	3.00	19.47	2583.35	1729.01
North America (11)	1471.70	+0.4	1465.34	1922.85	0.98	60.62	1922.85	1335.84

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jun 9	Day's chge%	Jun 6	Jun 5	Jun 4	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4686.7	+0.9	4645.0	4576.2	4557.1	3726.8	3.50	2.04	17.50	87.55	2000.05
FTSE 250	4484.1	+0.2	4473.2	4465.9	4467.8	4452.6	3.64	1.59	21.66	78.79	1870.11
FTSE 250 ex IT	4488.1	+0.2	4479.6	4473.0	4474.3	4497.2	3.79	1.62	20.43	80.76	1876.87
FTSE 350	2265.2	+0.8	2247.9	2220.3	2213.0	1887.3	3.53	1.95	18.16	41.82	1973.95
FTSE 350 ex IT	2264.6	+0.8	2247.3	2219.3	2211.7	-	3.56	1.96	17.92	9.49	1011.88
FTSE 350 Higher Yield	2198.3	+0.7	2183.2	2159.3	2152.5	1817.6	4.54	1.83	15.05	49.64	1623.23
FTSE 350 Lower Yield	2338.2	+0.9	2318.4	2286.7	2279.0	1964.4	2.50	2.17	23.06	33.34	1667.19
FTSE SmallCap	2279.49	......	2280.38	2277.24	2277.75	2242.92	3.09	1.72	23.59	34.36	1933.09
FTSE SmallCap ex IT	2262.11	-0.1	2265.41	2262.96	2262.90	2246.94	3.32	1.80	20.91	36.70	1934.29
FTSE All-Share	2222.17	+0.7	2206.41	2181.08	2174.47	1874.87	3.50	1.93	18.47	40.47	1965.10
FTSE All-Share ex IT	2221.12	+0.7	2205.38	2179.44	2172.42	-	3.54	1.95	18.07	9.22	1010.11

■ FTSE Actuaries Industry Sectors

	Jun 9	Day's chge%	Jun 6	Jun 5	Jun 4	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	4446.97	+0.2	4438.68	4358.28	4360.14	3469.09	3.43	2.01	18.09	68.75	1992.15
12 Extractive Industries(5)	4382.03	+0.6	4354.41	4286.86	4323.55	4367.35	3.59	2.38	14.60	104.80	1339.45
15 Oil, Integrated(3)	4589.13	+0.1	4585.28	4500.03	4504.67	3508.12	3.64	1.95	17.64	94.47	2114.02
16 Oil Exploration & Prod(12)	3798.97	+0.5	3780.07	3714.68	3659.68	2461.07	1.52	2.22	37.09	37.61	2327.27
20 GEN INDUSTRIALS(267)	1906.74	+0.3	1900.75	1882.58	1884.93	2061.35	4.20	1.91	15.58	36.19	1096.41
21 Building & Construction(35)	1379.44	+0.6	1371.03	1370.02	1373.22	1204.01	3.15	1.88	21.16	24.73	1199.61
22 Building Matls & Merchs(30)	1841.00	+0.3	1834.76	1823.69	1829.49	1914.91	4.36	2.77	10.38	36.86	970.45
23 Chemicals(26)	2433.52	+0.3	2425.20	2400.21	2397.09	2508.78	4.33	1.48	19.54	57.49	1210.83
24 Diversified Industrials(16)	1278.61	-0.4	1283.91	1298.66	1309.09	1667.22	5.69	2.01	10.93	38.57	757.54
25 Electronic & Elect Equip(36)	[illegible]										
26 Engineering(68)	[illegible]										
27 Engineering, Vehicles(13)	[illegible]										
28 Paper, Pckg & Printing(27)	[illegible]										
29 Textiles & Apparel(14)	[illegible]										
30 CONSUMER GOODS(94)	[illegible]										
32 Alcoholic Beverages(7)	[illegible]										
33 Food Producers(25)	[illegible]										
34 Household Goods(17)	[illegible]										
36 Health Care(18)	[illegible]										
37 Pharmaceuticals(18)	[illegible]										
38 Tobacco(2)	[illegible]										
40 SERVICES(271)	[illegible]										
41 Distributors(30)	[illegible]										
42 Leisure & Hotels(31)	[illegible]										
43 Media(44)	[illegible]										
44 Retailers, Food(15)	[illegible]										
45 Retailers, General(53)	[illegible]										
47 Breweries, Pubs & Rest.(22)	[illegible]										
48 Support Services(54)	[illegible]										
49 Transport(22)	[illegible]										
60 UTILITIES(31)	[illegible]										
62 Electricity(9)	[illegible]										
64 Gas Distribution(2)	[illegible]										
66 Telecommunications(8)	[illegible]										
68 Water(12)	[illegible]										
69 NON-FINANCIALS(673)	[illegible]										
70 FINANCIALS(105)	[illegible]										
71 Banks, Retail(9)	[illegible]										
73 Insurance(18)	[illegible]										
74 Life Assurance(7)	[illegible]										
77 Other Financial(25)	[illegible]										
79 Property(44)	[illegible]										
80 INVESTMENT TRUSTS(127)	[illegible]										
89 FTSE All-Share(905)	2222.17	+0.7	2206.41	2181.08	2174.47	1874.87	3.50	1.93	18.47	40.47	1965.10
105 FTSE All-Share ex IT(778)	2221.12	+0.7	2205.38	2179.44	2172.42	-	3.54	1.95	18.07	9.22	1010.11
FTSE Fledgling	[illegible]										
FTSE Fledgling ex IT	[illegible]										
FTSE AIM	1071.6	+0.3	1068.2	1070.0	1071.1	-	1.02	0.68	80.00	1.86	990.40

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4653.2	4678.7	4664.6	4675.3	4671.0	4658.0	4665.7	4676.4	4684.5	4688.7	4653.2
FTSE 250	4474.5	4479.0	4479.4	4479.2	4479.5	4479.6	4478.8	4480.9	4484.0	4484.2	4474.5
FTSE 350	2251.3	2261.6	2264.0	2260.2	2258.8	2253.6	2256.6	2260.9	2264.4	2266.2	2251.3
FTSE SmallCap	2280.26	2280.73	2280.63	2280.61	2280.58	2280.30	2280.10	2279.64	2279.45	2281.05	2279.45
FTSE All-Share	2209.48	2218.93	2221.09	2217.75	2216.25	2211.61	2214.36	2218.20	2221.58	2222.17	2209.48

Further information is available on http://www.ftse.com or contact FTSE International on +44 (0)171 448 1810. "FT-SE" and "Footsie" are trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. † Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative. Deletions: APV Plc (FTSE SmallCap) & 2(6).

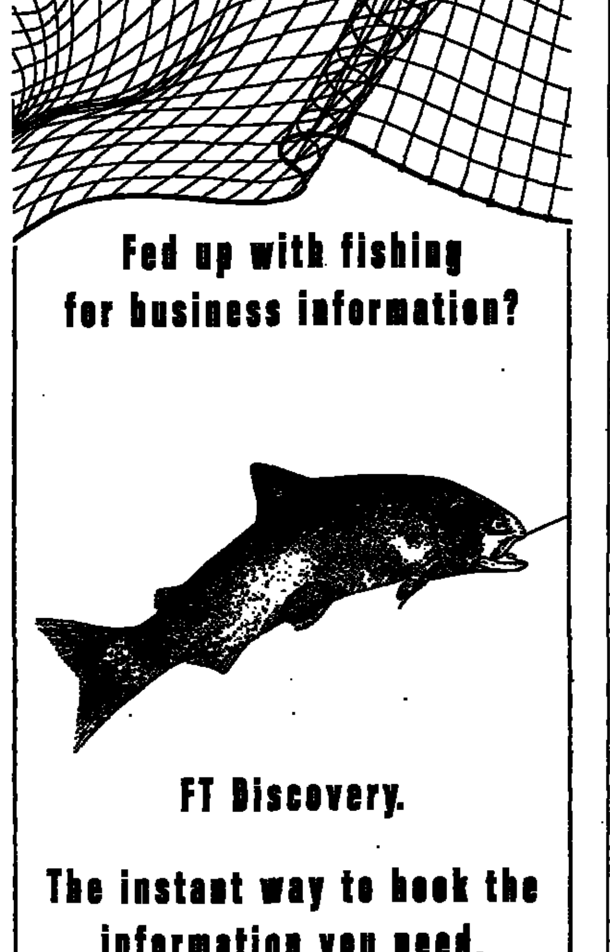
FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	1,100	515½	+9½
ASDA Group†	4,600	125½	+¼
Abbey National†	7,000	883½	+24
Airtours	262	1147½	+19
Albert Fisher	2,300	35¾	-½
Alliance & Leicester	3,100	607	+2½
Allied Domecq†	1,300	434½	-3½
Anglian Water	647	666½	-3½
[illegible]			
Bass†	4,200	746	-8
Blue Circle†	1,300	418½	+7
Booker	93	281	
Boots†	1,900	708½	+7½
Britannic	1,400	832½	+3½
Brit. Aerospace†	1,500	1358	+43
British Airways†	6,000	732	+6½
British Biotech	1,800	255½	+½
British Energy	1,800	156	+2
British Land†	398	598½	+2
British Steel†	3,900	148¾	-½
Burmah Castrol†	1,200	1007½xa	-4
Burton†	5,400	131¾	+1
Cable & Wire†	29,800	561½	-10½
Cadbury Schweppes†	1,100	533	+2½
Caradon	1,700	207½	+½
Carlton Comms.†	1,500	523	+2
Centrica†	7,200	67¾	+1
Coats Viyella	4,800	127½	+3
Comm. Union†	1,800	700	-1½
Compass	424	698½	+5
Cookson	848	223	-1
Courtaulds	2,000	339½	+1
Dalgety	41	277½	+½
De La Rue	1,300	359xd	-8½
Dixons†	3,600	491½	+3½
EMAP	122	762½xd	-¼
EMI†	1,200	1158	+8½
Electrocomps	739	412½	+12½
Energy Group†	933	561½	
Enterprise Oil†	1,500	698	-2½
FKI	2,900	178½	-½
Foreign & Col. I.T.	1,200	165¼	+2¼
Gen. Accident†	1,000	919	+5½
General Elect.†	8,200	338½	+2½
Glaxo Wellcome†	3,700	1233½	+16½
Glynwed	1,200	270	-½
Granada†	3,400	890	+12
Grand Met.†	6,800	564½	+2½
GUS†	3,100	643½	+6½
Greenalls	304	459	-7
GRE†	2,600	285½	+7
GKN†	724	1021½	+2
Guinness†	3,000	578	+4
HSBC (75p shs)†	1,700	1927½	+13
Halifax	10,400	749	+13½
Hammerson	960	497½	
[illegible]			

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FTSE 100 index constituent. Volume in 000s are rounded. Source: Bloomberg, part of FT Information.



Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 9 / Sch)

BELGIUM/LUXEMBOURG (Jun 9 / Frs.)

CZECH REP (Jun 9 / Koruna)

DENMARK (Jun 9 / Kr)

FINLAND (Jun 9 / Mkka)

FRANCE (Jun 9 / Frs.)

GERMANY (Jun 9 / Dm.)

GREECE (Jun 9 / Drachma)

ITALY (Jun 9 / Lira)

NETHERLANDS (Jun 9 / Fls.)

NORWAY (Jun 9 / Kroner)

POLAND (Jun 9 / Zloty)

PORTUGAL (Jun 9 / Escudo)

SPAIN (Jun 9 / Pta.)

SWEDEN (Jun 9 / Kronor)

SWITZERLAND (Jun 9 / Frs.)

TURKEY (Jun 9 / Tk Lira)

PACIFIC

JAPAN (Jun 9 / Yen)

HONG KONG (Jun 9 / H.K.$)

INDONESIA (Jun 9 / Rupiah)

MALAYSIA (Jun 9 / MYR)

NEW ZEALAND (Jun 9 / NZ $)

SINGAPORE (Jun 9 / S$)

AUSTRALIA (Jun 6 / Aust$)

SOUTH KOREA (Jun 9 / Won)

TAIWAN (Jun 9 / TW $)

THAILAND (Jun 9 / Baht)

AFRICA

SOUTH AFRICA (Jun 9 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jun 9 / Can $)
4 pm close

MONTREAL (Jun 9 / Can $)
4 pm close

Prices supplied by Telekurs, part of FT Information.

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Prices in US $.

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INDICES

	Jun 9	Jun 6	Jun 5	1997 High		1997 Low	
Argentina							
General(29/12/77)	(c)	22841.77	22638.19	22841.77	6/6	18232.37	2/1
Australia							
All Ordinaries(1/1/80)	(c)	2600.9	2604.2	2625.70	3/6	2362.28	1/4
All Mining(1/1/80)	(c)	936.5	932.9	987.19	24/2	878.49	16/4
Austria							
Credit Aktien(30/12/84)	426.54	428.15	431.07	431.87	5/6	374.48	9/1
Traded Index(2/1/91)	1298.43	1305.35	1306.92	1310.78	27/5	1130.32	9/1
Belgium							
BEL20(1/1/91)	2339.64	2309.93	2283.07	2339.64	9/6	1971.65	2/1
Brazil							
Bovespa(29/12/83)	(c)	11334.0	11186.0	11380.88	2/6	[illegible]	29/4
Canada							
Metals Mnls◆(1975)	(c)	5443.10	5415.84	5881.75	10/3	4845.86	11/4
Composite◆(1975)	(c)	6492.10	6449.50	6492.10	6/6	5579.30	14/4
Portfolio§§(4/1/83)	(c)	3283.57	3267.08	3300.84	28/5	2845.82	11/4
Chile							
IGPA Gen◆(31/12/80)	(c)	5572.80	5578.72	5735.98	2/6	4912.42	2/1
Denmark							
CopenhagenSE(3/1/83)	585.80	581.29	(c)	585.80	9/6	470.14	2/1
Finland							
HEX General(28/12/90)	3111.21	3075.81	3057.84	3120.08	23/5	2463.28	2/1
France							
SBF 250(31/12/90)	1778.31	1785.19	1781.26	1898.29	16/5	1538.19	2/1
CAC 40(31/12/87)	2686.20	2719.25	2690.85	2788.35	21/5	2286.97	2/1
Germany							
FAZ Aktien(31/12/58)	1262.77	1261.01	1252.78	1262.77	9/6	988.21	2/1
Commerzbank(1/12/53)	3700.40	3692.80	3664.70	3700.40	9/6	2875.90	2/1
DAX(30/12/87)	3867.43	3895.29	3873.03	3895.29	6/6	2848.77	2/1
Greece							
Athens SE(31/12/80)	1589.79	1592.35	1644.66	1727.70	23/5	954.54	2/1
Hong Kong							
Hang Seng(31/7/64)	(c)	14655.13	14786.52	14898.90	2/6	12055.17	3/4
India							
BSE Sens.(1979)	3835.35	3836.44	3873.85	3944.81	4/3	3225.24	2/1
Indonesia							
Jakarta Comp.(10/8/82)	692.50	695.01	691.98	712.80	28/2	631.27	15/4
Ireland							
ISEQ Overall(4/1/88)	3344.07	3345.01†	3319.34	3345.01	6/6	2725.97	2/1
Italy							
Banca Comm Ital(1972)	758.56	768.23	766.45	787.71	10/2	642.58	2/1
MIB General(2/1/97)	1142.0	1157.0	1154.0	1187.00	10/2	991.09	2/1
Japan							
Nikkei 225(16/5/49)	20223.82	20485.75	20488.15	20611.58	4/6	17303.65	10/1
Nikkei 300(1/10/82)	290.14	291.56	292.79	293.84	9/6	251.94	27/1
Topix(4/1/68)	1504.92	1509.88	1514.45	1518.27	4/6	1328.82	16/4
2nd Section(4/1/68)	1802.23	1800.87	1797.55	1829.21	6/1	1518.58	15/4
Malaysia							
KLSE Comp.(4/4/86)	1117.20	1117.31	1108.84	1271.57	25/2	1041.27	15/5
Mexico							
IPC(Nov 1978)	(c)	4160.85	4119.53	4160.85	6/6	3359.46	2/1
Netherland							
CBS TtlRtnGen(End 83)	974.1	969.7	963.9	974.10	9/6	730.80	2/1
CBS All Shr(End 83)	562.8	559.7	557.0	562.80	9/6	428.00	2/1
New Zealand							
Cap. 40(1/7/86)	2371.02	2376.14	2362.78	2440.21	20/1	2207.48	1/4
Norway							
Oslo SE(Ind)(2/1/83)	1990.80	1973.87	1959.80	1990.80	9/6	1639.03	2/1
Philippines							
Manila Comp(2/1/85)	2778.37	2762.80	2778.44	3447.80	3/2	2489.38	20/5
Portugal							
BVL 30(4/1/93)	3024.82	3002.63	2970.78	3024.82	9/6	2165.57	2/1
Singapore							
SES All-S'pore(2/4/75)	497.51	500.68	501.50	573.83	17/2	479.94	29/4
South Africa							
JSE Gold(28/9/78)	1181.3♥	1175.8	1140.3	1588.18	27/2	1140.28	5/6
JSE Ind.(28/9/78)	8519.2♥	8477.2	8459.9	8688.70	6/5	7869.10	2/1
South Korea							
KoreaCompEx**(4/1/80)	775.01	(c)	765.67	775.01	9/6	611.05	7/1
Spain							
Madrid SE(30/12/85)	586.90	574.95	566.24	577.76	27/5	434.54	2/1
Sweden							
AffarsvaldsGen(1/2/37)	2900.7	2905.4	2878.6	2911.00	29/5	2378.50	2/1
Switzerland							
SMI Index(1/7/88)	5368.8	5320.9	5251.2	5368.80	9/6	3822.90	7/1
SPI General(1/6/87)	3383.20	3368.53	3327.99	3383.20	9/6	2506.22	6/1
Taiwan							
Weighted Pr.**(30/6/66)	(c)	8342.94	8231.30	8881.72	26/4	6844.75	6/1
Thailand							
Bangkok SET(30/4/75)	534.46	530.62	548.05	858.97	22/1	530.62	6/6
Turkey							
IMKB Nat 100(1986)	1647.08	1669.00	1675.00	1675.00	5/6	895.60	2/1
WORLD							
MS Capital Intl(1/1/70)	917.7*	910.5	901.4	917.70	9/6	794.50	14/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	2388.87	2376.85	2368.87	2388.87	9/6	1902.80	2/1
FTSE E 100(26/6/90)	2031.84	2034.24	2010.59	2034.24	6/6	1592.88	2/1
HSBC JC Dgn(31/12/88)	(c)	419.19	420.05	429.46	20/1	381.54	29/4
ING Bngs Emrg(7/1/92)	182.84	181.45	181.38	192.84	9/6	159.74	3/1

** Sat June 7: Taiwan Weighted Price 8367.48; Korea Comp Ex 782.77. Base values of all indices are 100 except Australia All Ord and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, SPI, Euro Top-100, ISEQ Overall, Toronto Comp./Met & Mins, DAX - all 1,000; SMI - 1500; JSE Gold - 255.7; JSE 20 Ind - 264.3; IMKB Nat 100 - 1; NYSE All Common - 50; Stand & Poor's - 10 and Amex Comp - 550 §§ Montreal. ◆ Toronto. (c) Closed. (u) Unavailable. ‡ FT/DAX after-hours index: Jun 9 - 3888.81 -31.62.

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x index)							
Jun	2716.0	2688.0	-33.0	2734.0	2637.0	19,029	39,321
Jul	2714.0	2666.0	-32.0	2722.0	2644.5	149	4,482
DAX							
Jun	3728.0	3670.0	-37.0	3740.0	3664.0	23,364	151,660
Sep	3757.5	3697.0	-35.5	3767.0	3692.5	3,220	14,507
OMX							
Jun	2315.00	2318.75	+20.75	2322.00	2285.00	5,666	27,931
Jul	2327.00	2294.75	-8.50	2327.00	2294.75	47	2,165
SOFFEX							
Jun	5350.0	5351.0	+49.8	5370.0	5317.0	5,205	22,788
Jul	5370.0	5350.2	+105.8	5370.0	5343.0	651	3,946

US INDICES

Dow Jones	Jun 6	Jun 5	Jun 4	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7435.78	7305.29	7269.66	7435.78 (6/6)	6391.69 (11/4)	7435.78 (6/6/97)	41.22 (8/7/32)
Home Bonds	102.47	102.38	102.18	103.63 (19/2)	101.09 (14/4)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2718.15	2683.55	2659.02	2718.15 (6/6)	2222.07 (2/1)	2718.15 (6/6/97)	13.23 (8/7/32)
Utilities	222.33	221.11	221.05	240.85 (22/1)	208.47 (25/4)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7473.98 (7376.97) Low 7290.26 (7241.33) (Theoretical◆)
Day's high 7445.22 (7351.65) Low 7304.86 (7267.94) (Actual◆)

Standard and Poors	Jun 6	Jun 5	Jun 4	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	858.01	843.43	840.11	858.01 (6/6)	737.01 (2/1)	858.01 (6/6/97)	4.40 (1/6/32)
Industrials♥	1008.72	991.59	988.43	1008.72 (6/6)	865.42 (11/4)	1008.72 (6/6/97)	3.52 (30/6/32)
Financial	97.98	96.95	95.26	97.98 (6/6)	80.75 (2/1)	97.98 (6/6/97)	7.13 (4/8/74)
NYSE Comp.	448.13	441.84	440.18	448.13 (6/6)	390.47 (11/4)	448.13 (6/6/97)	4.64 (25/4/42)
Amex Comp.	614.65	610.75	607.73	614.65 (6/6)	541.20 (28/4)	617.81 (22/5/96)	524.20 (16/7/96)
NASDAQ Cmp	1404.86	1390.05	1379.67	1410.18 (28/5)	1201.00 (2/4)	1410.18 (28/5/97)	54.87 (3/10/74)

RATIOS

	Jun 6	May 30	May 23	Year ago
Dow Jones Ind. Div. Yield	1.70	1.73	1.69	2.16
	Jun 4	May 28	May 21	Year ago
S & P Ind. Div. yield	1.69	1.67	1.67	1.83
S & P Ind. P/E ratio	23.32	23.66	23.39	22.74

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Philip Morris	4,885,500	42¾	...
Westinghse	4,805,700	19⅝	-⅛
IBM	4,578,200	85½	+2¾
AT&T	4,127,200	35⅞	+⅛
Gen Elec	3,970,900	62¼	+1⅝
Micron	3,913,800	41⅞	+½
Exxon	3,839,200	61⅛	+1⅛
Compaq	3,759,400	103	+3¾
Adv Micro	3,445,400	38⅝	+1⅛
Seagate Tch	3,413,700	38	-⅝

TRADING ACTIVITY

Volume (million)	Jun 6	Jun 5	Jun 4
New York SE	488.349	452.623	469.751
Amex	28.809	21.124	18.850
NASDAQ	595.762	571.274	607.381
NYSE			
Issues Traded	3,363	3,334	3,336
Rises	1,711	1,398	1,150
Falls	736	960	1,331
Unchanged	916	876	855
New Highs	313	208	172
New Lows	7	11	9

	Open	Latest	Change	High	Low	Est. vol.	Open int.
S&P 500							
Jun	862.50	862.50	-	863.10	861.70	83,444	150,162
Sep	870.00	871.30	-	871.70	870.00	8,184	48,358

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Nikkei 225							
Jun	20540.0	20270.0	-230.0	20580.0	20250.0	13,127	169,774
Sep	20570.0	20340.0	-180.0	20610.0	20300.0	10,192	116,374

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ◆ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ◆ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

TOKYO - MOST ACTIVE STOCKS: Monday, June 9, 1997

	Stocks Traded	Closing Prices	Change on day
Toshiba Corp	4.4m	745	+4
Hitachi	3.5m	1250	-10
Tokio M & F Ins	3.3m	1420	+40
Nippon Steel Cp	3.3m	346	-2
Sanyo Electric	3.2m	[illegible]	[illegible]
NKK Corp	3.1m	242	
Dai-ichi Kangyo Bk	3.0m	1290	+40
Sakura Bank	3.0m	749	+7
Fujitsu	2.9m	1460	-10
Sumitomo M&F Ins	2.7m	[illegible]	[illegible]

NEW YORK STOCK EXCHANGE PRICES

4 pm close June 9

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chg'ge Prev. Close
		- A -								
32	24¼	AAR	0.48	1.5	24	684	31½	31¼	31⅜	
43	33½	AMP	1.04	2.5	33	2406	41⅛	40¾	41	+⅛
102½	78¼	AMR			7	8030	d103¼	99¾	99½	-2½
37⅞	31½	ASA	1.20	3.7	21	568	32⅞	32½	32⅞	+¼
67⅛	49¾	AbbtL	1.08	1.7	26	9906	65½	63⅞	65	+1
18⅝	14⅞	AMBAC Fr	0.40	2.3	9	20	17¾	17¾	17¾	
20	17⅞	ABM Ind	0.40	2.0	18	106	19¾	19⅝	19¾	
23	17¾	Acceptance			11	143	21¾	21½	21⅝	+⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- B -

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- C -

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- D -

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- F -

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- R -

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Continued on next page

4 pm close June 9

NYSE PRICES

Continued from previous page

[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. s/s-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
† Dealings suspended.

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NASDAQ NATIONAL MARKET

4 pm close June 9

[illegible]

AMEX PRICES

4 pm close June 9

[illegible]

EASDAQ

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Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$5.5		10000	8.25	4.375	Esprit Telecom ADS	US$7.875	+0.25	6900	12.25	5.375
Advent Systems	US$10.825		39000	11.125	9.5	Innogenetics	US$11.75		13725	12.75	10.375
Chemunex	FFr14.5	+0.5	2000	18	14	Mercer Internatl.	US$10.5		0	11.75	8.125
Dr Solomon's ADS	US$21	+0.375	3000	26.5	16.875	PixTech	US$4.125	+0.125	0	6.125	3.875

Prices for 9/6/97. Please note that mid prices are now used to calculate highs and lows.

Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be
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US shares continue to advance

AMERICAS

Wall Street shrugged off weakness in the bond market at midsession to reach new highs, *write Jane Martinson and John Authers in New York.*

At 1pm, the Dow Jones Industrial Average rose 53.29 above Friday's closing record to 7,489.07. The rise prompted the so-called downtick rule designed to limit momentum.

Other indices also rose to all-time highs as technology stocks and consumer products groups, in particular, enjoyed strong gains. The technology-driven Nasdaq composite index gained 9.74 to 1,414.58, past its previous closing record of 1,410.18. Intel was among the strongest risers with a gain of $3¼ or more than 2 per cent to $149¼.

Both the large and small sectors contributed to the rally. The Russell 2000 index of smaller companies rose 0.76 above Friday's record to 387.90, while the S&P 500 gained 4.93 at 862.94.

Mr Warren Epstein, director of trading and sales at Rosenblatt & Co, described the market's strength as "a continuation of the same things we've been seeing – a lot of momentum". He said the Nasdaq, and particularly Intel, were enabling the market to ignore bond market weakness. The benchmark 30-year note fell ⅜ to 97⅞, yielding 6.801 per cent.

However, Mr Epstein warned that the weak transport sector could have an adverse effect on the market if it continued to decline. The Dow Jones Transportation index was down 22 at 2696.15.

Technology stocks such as IBM and Hewlett Packard contributed to the leading indicator's gains. The former advanced $1⅝ to $87⅝ after launching a new generation of high performance mainframe computers, while the latter rose $1⅛ to $53⅛. Procter & Gamble was among several consumer products groups to rise. It gained $1⅞ to $138⅜.

Comcast gained $3½ to $21⅞ after Microsoft announced a $1bn investment to improve the company's high-speed data and video services. The computer giant's shares rose $1⅜ at $124⅞.

BankAmerica's shares rose $1⅞ to $124⅛ after it confirmed the $540m acquisition of Robertson Stephens & Co, a private bank based in San Francisco.

TORONTO failed to track Wall Street higher. Having reached a record high at the close on Friday, the 300 composite index was trailing by 3.70 at 6,488.40 at the noon calculation. Leaders were mixed. Alcan Aluminium hardened 25 cents to C$49.70 but Royal Bank of Canada came off 40 cents to C$60.

Mexico City declines

MEXICO CITY ran into modest profit-taking ahead of the May inflation data. Dealers said the trend was not a surprise given the recent rally, which by Friday had pushed the market to four record highs in five sessions.

"A pause is what we need right now. This is healthy," said one broker. At midsession, the IPC index was off 18.43 at 4,142.42.

SAO PAULO, by contrast, rode up on the back of Wall Street's strength plus a steady inflow of liquidity from local investors. Turnover, which topped R$1bn on Friday, stayed active. At midsession, the Bovespa index was 141 or 1.2 per cent ahead at 11,475.

SANTIAGO also made progress with the IPSA index ending the morning session 0.58 higher at 131.17.

Emu, currency worries hit bourses

EUROPE

Emu wobbles and a weak dollar hit PARIS, which ended a volatile session with the CAC 40 index off 33.05 at 2,686.20. Trading was thin at 13.1m shares and the market swung within a range of almost 100 points, reaching down to a session low of 2,657.07 just after midday.

Bouygues was a rare bright spot, rising FFr6 to FFr525 as sum-of-the-parts optimism resurfaced after a weekend press report led to an outbreak of spin-off talk.

The conglomerate is expected to float its water and telecoms operations within the next few years. Analysts estimates of Bouygues' break-up value range from FFr650 a share to beyond FFr800.

Danone, the foods group, gained FFr7 to FFr943, and Promodes continued to benefit from retail optimism, adding FFr10.00 to FFr2,170. But the broad market was uniformly weak. Ahead of today's annual meeting, Renault retreated FFr2.90 to FFr134. Michelin, which comes face to face with shareholders on Thursday, lost FFr11.00 at FFr323.

ZURICH, conversely, extended its record-setting streak to a fifth straight session, helped by some derivatives-related transactions and Wall Street's firm start. The SMI index closed 48.8 higher at 5,368.8.

Holderbank shot forward on an earnings clarification plus hopes for solid progress in Mexico. The shares, said to have seen strong demand from one large bank, peaked at SFr1,420 before pulling back to close at a year's high of SFr1,409, up SFr64 on the day. Cemex, the Mexican cement leader, was in London on Friday giving institutional investors a bullish insight into demand trends. Holderbank's local operations are number two in Mexican cement after Cemex with a near 25 per cent share of the market.

Roche fell SFr110 to SFr13,165 as investors moved into Novartis, which gained SFr44 to SFr2,046.

Among other leaders, Nestlé added SFr22 to SFr1,850, while ABB, the Swiss Swedish engineer that plans to transfer thousands of jobs from western Europe to emerging economies over the next five years, gained SFr31 to SFr2,130.

Financial issues overcame early selling pressure to close mostly higher. But Credit Suisse, a strong performer in recent sessions, fell SFr1.50 to SFr195.00 on disappointment that a rumored announcement had failed to materialise.

AMSTERDAM nudged up to another record high, its fourth in succession. The AEX index ended 4.90 higher at 829.33.

Ahold was a firm market ahead of Thursday's first-quarter results, gaining Fl 1 to Fl 261.50, and there was renewed strength among financials. ABN Amro added 50 cents to Fl 36.90 and ING gained 90 cents to Fl 90.10.

Shipping leader Nedlloyd was the day's best performer, rising Fl 1.70 to Fl 49.80. Vendex and Vedior moved in opposite directions. The former eased 70 cents to Fl 109.20 while the unit that it spun-off last week rose Fl 1.10 to Fl 48.

FRANKFURT finished in uncertain mood after a strong start as a raft of negative rumours about Emu and the German coalition pulled shares down. At the close, the Ibis-indicated Dax was 31.92 down at 3,668.61 in turnover of DM10.7bn.

Amid a dearth of corporate news, dollar-sensitive stocks took the brunt of the day's selling. BMW lost DM33 to DM1,387 and Hoechst fell DM1.37 to DM69.37.

MILAN saw frenetic activity in savings shares of Stet and Telecom Italia after the government said that it had no plans to convert them into ordinary stock.

Both savings shares were suspended limit-down at the opening, but later resumed trading after the fluctuation band was widened from 10 per cent to 20 per cent.

The Stet savings shares plunged L1,023 to L5,676 as its ordinary shares rose L32 to L8,546. Telecom Italia savings shares tumbled L572 to L3,232 and its ordinaries edged up L13 to L4,637.

One analyst noted that the normal discount between a savings share, with no voting rights, and an ordinary share was between 30 per cent and 40 per cent. Before the news, the discount for Stet savings shares had narrowed to 21 per cent and Telecom Italia savings shares were at an 18 per cent discount.

Doubts about the run-up to Emu left the broad market weak and the Comit index gave up 8.67 to 759.56.

Parmalat, suspended ahead of news that it was to buy the Canadian Ault Foods, dropped L149 to L2,311 as it resumed trading.

MADRID was another victim of lingering doubts over European economic and monetary union and the general index gave up 7.96 to 566.99. The largest stocks bore the brunt of the day's selling, with Telefónica losing Pta105 to Pta4,235 and Endesa sank Pta240 to Pta11,300. BBV bucked the trend ahead of a share split, adding Pta50 to Pta11,100.

Written and edited by Michael Morgan and Jeffrey Brown

FTSE Actuaries Share Indices

Jun 9								THE EUROPEAN SERIES
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2388.59	2396.76	2400.13	2393.85	2396.47	2387.53	2388.51	2388.87
FTSE Eurotrack 200	2417.82	2424.51	2425.14	2421.84	2412.70	2415.77	2417.19	2414.36

	Jun 6	Jun 5	Jun 4	Jun 3	Jun 2
FTSE Eurotrack 100	2376.85	2368.87	2357.70	2344.14	2322.89
FTSE Eurotrack 200	2401.58	2394.62	2372.87	2366.99	2359.80

Base value 1000 (26/10/90); High/day: 100 - 2400.86 200 - 2427.25 Low/day: 100 - 2386.20 200 - 2410.01 † Partial.

Pre-budget surge takes Karachi up by 2.7%

Pakistan's share prices jumped 2.7 per cent as a flurry of activity ahead of Friday's national budget breathed life back into the market after weeks of bearish sentiment, *writes Farhan Bokhari*. The KSE-100 index closed 41.35 higher at 1,572.12.

Analysts attributed the rise to investors snapping up bargains before the budget, rather than improvements in Pakistan's overall economic fundamentals, which remain troublesome.

Mr Raza Mirza, head of research at Karachi's Khadim Ali Shah Bukhari brokerage, said: "The market had been sold off considerably in the last few weeks. People found this to be an opportunity to return with some buying."

The budget is unlikely to bring immediate good news to the market. The government has been under pressure to tighten Pakistan's notoriously lax tax system in an effort to improve the country's budget deficit.

Islamabad's desire to seek a new loan agreement with the IMF depends on the government's ability to increase tax revenues during the next year, market analysts say. The government has already reduced tax rates by a wide margin for next year, but many businessmen say that an aggressive clamp-down on tax evasion will have to follow.

Some analysts have gone as far as predicting that attempts to improve revenues may undermine recent incentives given by the government of Mr Nawaz Sharif, the prime minister, to help revive trade and industry.

Other concerns include a growing international trade deficit and the government's failure to reduce its fast growing borrowings from domestic banks to meet its expenditure. In view of such concerns, many analysts also said that yesterday's performance may turn out to be a short-term gain, rather than the beginning of a sustained turn around.

Tokyo falls as dollar plunges against yen

ASIA PACIFIC

Tokyo fell sharply as the dollar plunged to a six-month low against the yen and drove down futures prices, prompting investors to sell cash stocks, *writes Gwen Robinson.*

The Nikkei 225 average fell 261.93 to close at the day's low of 20,223.83 after reaching an intra-day high of 20,626.65.

Early trading was buoyed by sentiment carried over from New York's record gains on Friday. But the dollar's unexpected slide hit the near-term June futures contract, which lost 230 to 20,270 as the dollar headed to an intra-day low of Y111.85.

Subsequent comments by senior finance officials expressing concern about renewed currency volatility and the dollar's slight rebound to nearly Y113 in the afternoon helped limit the stock market's losses.

Volume dwindled from Friday's 340m shares to an estimated 263m. Declines narrowly led advances 566 to 514, with 167 unchanged. The Topix index of all first-section stocks fell 4.74 to 1,504.92 and the capital-weighted Nikkei 300 was off 1.42 at 290.14.

In London, the ISE/Nikkei 50 index rose 3.37 to 1,581.07.

Export-driven stocks mostly retreated on the dollar's weakness. Sony fell Y110 to Y9,840, TDK Y120 to Y8,590 and Canon Y90 to Y2,970. Fuji Photo Film shed Y150 to Y4,600 and Bridgestone Y50 to Y2,630. Car makers also fell, with Toyota down Y70 at Y3,340 and Honda Y70 to Y3,430.

Isuzu, however, added Y3 to Y426 following its announcement last Friday of better than expected earnings. Foreign investors bought electrical laggards including Toshiba, the day's most active issue, which rose Y4 to Y745.

Among domestic demand-related stocks, non-life insurers were the day's biggest gainers, rising 1.6 per cent as a group. Tokio Marine and Fire Insurance added Y40 to Y1,420, Nippon Fire and Marine Insurance Y11 to Y595 and Chiyoda Fire and Marine Insurance Y23 to Y518.

Dai-Ichi Kangyo Bank managed to erase earlier losses stemming from the widening scandal over illegal dealings with corporate racketeers and ended the day up Y40 at Y1,290.

In Osaka, the OSE average fell 132.21 to 21,119.47 in volume of 12.1m shares.

SEOUL advanced to its highest close since the end of October as falling interest rates and the yen's fresh rebound boosted demand, particularly for securities houses and shipbuilders. The composite index gained 12.24 or 1.6 per cent to 775.01.

Analysts noted that benchmark three-year corporate bond yields were at 11.3 per cent, the lowest level for 12 months. This was expected to provide a strong boost to the earnings of securities firms and the sector's sub index soared 7.6 per cent.

Almost all the securities firms rose to their daily limits. Saishin Securities rose Won640 to Won8,690 and Daewoo Securities picked up Won1,100 to Won15,000.

The yen's intra-day strength helped companies competing with Japanese exporters. Daewoo Heavy Industries rose Won330 to Won8,580, off a high of Won8,650.

Sydney, Hong Kong and Taipei were closed for public holidays

BANGKOK deftly absorbed several bouts of profit-taking to finish an active session comfortably above the eight-year low seen on Friday. Turnover was Bt9.8bn.

There was some relatively aggressive buying by mutual funds during the afternoon session but much of the session's upturn was said to have stemmed from position closing after Friday's sharp 3.2 per cent decline.

At the close, the SET index was up 3.84 at 534.46. Bangkok Bank was the most active stock, adding Bt4 to Bt146. Shinawatra Computer shed Bt10 or nearly 9 per cent to Bt104.

KUALA LUMPUR featured activity in Suria Capital on expectations of a merger with MBf Capital on expectations of a merger.

Suria jumped 23 cents or 8.3 per cent to M$3 but MBf was suspended pending an announcement. Analysts noted that a tie-up would be a coup for MBf because it had been seeking a commerce banking licence.

The broad market was dull, with the composite index down 0.11 at 1,117.20.

MANILA traded quietly, held in check by the holiday in Hong Kong. In turnover of 914m pesos, less than half of what passes for an average session, the composite index closed 15.57 better at 2,778.37.

A strong overnight performance on Friday in New York for its ADRs helped lift PLDT by 15 pesos to 805 pesos.

South African pushes higher

Shares in Johannesburg pushed higher for the sixth session running with industrials still in demand and golds staying on the upside thanks to bullion price stability.

At the close the all-share index was up 34.2 at 7,296.4. Industrials gained 42.0 to 8,519.2 while golds, subdued in comparison with Friday's steep 3 per cent ascent, added 5.7 to 1,181.3.

MARKETS IN PERSPECTIVE

	% change in local currency † 1 Week	4 Weeks	1 Year	Start of 1997	% change sterling † Start of 1997	% change in US $ † Start of 1997
Austria	+1.80	+4.56	+13.28	+15.51	+8.20	+2.90
Belgium	+1.81	+3.34	+34.45	+23.19	+15.38	+9.74
Denmark	+2.02	+4.43	+44.35	+21.29	+14.30	+8.70
Finland	+1.75	+2.43	+52.33	+23.58	+15.39	+9.74
France	+5.19	+2.78	+26.94	+16.71	+9.34	+3.98
Germany	+3.95	+3.45	+42.60	+26.24	+18.32	+12.53
Ireland	+2.40	+2.75	+27.72	+19.20	+10.03	+4.64
Italy	+1.43	-0.12	+17.42	+16.12	+10.88	+5.45
Netherlands	+3.86	+5.48	+43.48	+26.65	+18.46	+12.66
Norway	+1.70	+5.74	+35.21	+18.99	+11.46	+6.00
Spain	+5.01	+7.74	+62.35	+30.65	+22.18	+16.20
Sweden	+2.79	+4.72	+45.86	+23.16	+13.50	+7.95
Switzerland	+5.47	+6.07	+45.93	+34.09	+30.51	+24.12
UK	+0.32	-0.02	+20.01	+10.58	+10.58	+5.16
EUROPE	+2.63	+2.61	+31.54	+19.28	+14.73	+9.11
Australia	-0.45	+2.76	+20.30	+9.11	+9.71	+4.34
Hong Kong	+0.73	+5.49	+19.36	+2.99	+8.18	+2.88
Indonesia	-0.85	+1.92	n.a.	+8.71	+11.11	+5.67
Japan	+1.66	+1.60	-7.75	+3.08	+9.06	+3.72
Malaysia	+0.52	-1.08	-3.03	-11.36	-6.27	-10.86
New Zealand	+1.23	+4.96	+16.91	+2.26	+4.70	-0.42
Philippines	-4.00	+3.93	n.a.	-18.61	-14.71	-18.89
Singapore	+0.29	+1.06	-5.73	-4.26	-1.46	-6.31
Thailand	-9.34	-16.42	-66.78	-39.74	-32.35	-35.67
Canada	+2.11	+4.98	+29.70	+11.27	+15.87	+10.19
USA	+1.16	+4.12	+26.69	+15.15	+21.08	+15.15
Brazil	+0.10	+7.16	+73.40	+46.57	+49.42	+42.10
Mexico	+4.70	+7.94	+24.38	+23.07	+27.43	+21.18
South Africa	+3.59	+0.50	+2.98	+9.08	+19.86	+13.80
WORLD INDEX	+1.63	+3.27	+19.42	+13.17	+19.26	+10.57

† Based on June 6th 1997.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JUNE 6 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY JUNE 5 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	231.53	-0.3	210.63	168.64	208.10	202.74	-0.1	3.60	232.17	211.07	169.62	208.65	202.99	234.37	188.44	199.22
Austria (24)	195.41	-0.1	178.03	142.50	175.64	175.57	-0.1	1.89	195.63	177.85	142.93	175.84	175.75	200.52	174.70	194.94
Belgium (26)	246.86	1.0	227.63	182.21	224.58	219.73	1.0	3.26	247.38	224.90	180.73	222.35	217.65	254.86	208.70	210.57
Brazil (30)	269.53	1.8	245.55	196.55	242.26	532.09	1.8	1.35	264.89	240.83	193.37	237.91	522.72	269.58	162.65	167.03
Canada (112)	209.18	0.1	190.56	152.54	188.02	209.67	0.7	1.66	209.08	190.08	152.75	187.93	208.26	209.45	154.12	163.61
Denmark (32)	382.58	0.3	348.55	278.99	343.88	342.51	0.3	1.48	381.46	346.79	278.66	342.87	341.55	390.15	293.76	295.23
Finland (26)	269.57	0.8	245.59	196.58	242.30	283.63	0.8	1.55	267.45	243.14	195.39	240.39	291.22	279.84	186.67	195.40
France (91)	222.58	0.9	202.79	162.32	200.07	203.74	1.0	2.78	220.52	200.48	161.10	198.21	201.75	232.34	186.94	197.25
Germany (59)	213.79	0.5	194.77	155.90	192.16	192.16	0.5	1.47	212.69	193.36	155.38	191.17	191.17	216.90	168.28	169.17
Hong Kong (66)	521.65	-0.7	475.25	380.41	468.88	518.61	-0.7	2.91	525.52	477.76	383.92	472.35	522.45	528.88	407.55	437.26
Indonesia (27)	241.13	0.6	219.68	175.84	216.74	359.53	0.6	1.59	239.69	217.91	175.11	215.44	357.38	-	-	-
Ireland (16)	344.11	0.8	313.50	250.94	309.30	326.32	0.7	2.99	341.21	310.20	249.27	306.69	324.00	350.96	270.08	286.37
Italy (59)	88.04	-0.2	80.21	64.20	79.14	111.99	0.0	2.24	88.26	80.24	64.48	79.33	111.96	96.32	73.26	82.47
Japan (485)	133.87	-0.1	121.96	97.62	120.33	97.62	-0.3	0.81	134.05	121.87	97.93	120.49	97.93	158.25	107.57	153.31
Malaysia (107)	537.73	0.6	489.89	392.13	483.33	520.08	0.4	1.32	534.34	485.77	390.37	480.28	517.83	660.86	510.10	557.48
Mexico (27)	1478.22	0.1	1346.73	1077.97	1328.67	12920.78	0.7	1.16	1477.55	1343.27	1079.44	1328.07	12831.75	1479.47	1110.35	1266.00
Netherland (19)	378.69	0.6	345.01	276.16	340.38	336.12	0.6	2.32	376.29	342.09	274.90	338.22	334.09	382.16	279.88	299.69
New Zealand (14)	91.38	0.9	83.25	66.64	82.14	70.53	0.7	4.08	90.54	82.31	66.14	81.38	70.03	95.60	75.94	75.94
Norway (41)	313.29	0.8	285.42	228.46	281.60	304.79	0.9	2.02	310.69	282.45	226.96	279.26	302.19	321.23	248.04	253.77
Philippines (22)	165.17	-2.4	150.48	120.45	148.46	217.22	-2.3	0.86	169.15	153.77	123.57	152.03	222.30	-	-	-
Singapore (42)	393.34	-0.1	358.35	286.84	353.55	259.05	-0.1	1.17	393.80	358.01	287.69	353.96	259.18	449.01	360.08	423.16
South Africa (44)	362.37	0.6	330.13	264.25	325.71	355.10	0.8	2.45	360.22	327.48	263.16	323.77	352.88	370.12	301.49	362.45
Spain (36)	255.40	1.3	232.68	186.25	229.56	282.97	1.4	2.31	252.22	229.30	184.27	226.71	279.06	262.42	171.91	177.74
Sweden (49)	455.42	0.5	414.90	332.11	409.34	525.22	1.0	1.98	453.30	412.10	331.16	407.44	519.97	467.61	334.35	360.77
Switzerland (35)	296.09	1.0	269.75	215.92	266.14	266.30	1.2	1.26	293.23	266.58	214.23	263.57	263.09	299.90	230.41	234.11
Thailand (43)	61.63	-4.3	56.15	44.94	55.39	57.45	-4.0	5.44	64.39	58.54	47.04	57.88	59.86	175.68	59.76	175.68
United Kingdom (212)	297.79	1.1	271.30	217.16	267.66	271.30	1.3	3.68	294.50	267.74	215.15	264.71	267.74	309.18	229.63	234.94
USA (650)	347.58	1.6	316.66	253.46	312.41	347.58	1.6	1.76	341.93	310.85	249.80	307.93	341.93	347.56	254.79	274.37
Americas (819)	318.23	1.6	289.92	232.06	286.03	268.04	1.6	1.75	313.33	284.85	228.90	281.63	263.82	318.23	233.09	250.58
Europe (726)	261.49	0.8	238.23	190.69	235.04	243.87	1.0	2.62	259.30	235.74	189.44	233.07	241.49	264.79	204.71	210.62
Nordic (150)	392.17	0.5	357.28	285.98	352.48	390.45	0.9	1.84	390.11	354.66	285.00	350.64	387.14	401.56	291.45	306.61
Pacific Basin (882)	152.42	-0.2	138.86	111.15	137.00	111.95	-0.3	1.28	152.70	138.82	111.55	137.25	112.31	170.85	127.18	166.51
Euro-Pacific (1608)	197.94	0.4	180.33	144.34	177.91	161.73	0.4	2.01	197.18	179.27	144.06	177.24	161.09	198.16	173.55	184.79
North America (762)	339.13	1.5	308.96	247.30	304.82	338.47	1.6	1.76	333.87	308.53	243.91	300.09	333.12	339.13	248.65	267.51
Europe Ex. UK (514)	235.81	0.7	214.98	172.04	212.05	223.26	0.8	2.02	234.29	213.00	171.16	210.59	221.48	238.98	185.65	192.22
Pacific Ex. Japan (397)	312.23	-0.3	284.46	227.69	280.64	273.21	-0.3	2.74	313.24	284.78	228.85	281.55	274.06	320.65	268.97	288.80
World Ex. US (1821)	201.56	0.4	183.63	146.99	181.17	169.29	0.4	2.00	200.80	182.55	146.69	180.48	167.57	201.56	176.94	186.15
World Ex. UK (2259)	243.19	0.9	221.56	177.34	218.59	214.46	1.0	1.69	240.99	219.00	175.99	216.52	212.42	243.19	199.58	211.35
World Ex. Japan (1986)	306.56	1.2	279.29	223.56	275.55	296.99	1.3	2.10	302.94	275.41	221.32	272.29	293.28	306.56	293.10	246.56
The World Index (2471)	247.90	1.0	225.85	180.78	222.82	219.74	1.0	1.89	245.52	223.21	179.37	220.66'	217.57	247.90	202.32	213.48

 Latest prices were unavailable for this edition.

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BRAZIL FINANCE AND INVESTMENT

Although the Real Plan has brought inflation down to single figures a lot more work is needed to justify investors' new-found optimism, writes **Stephen Fidler**

Much achieved, much still to do

Investor perceptions of Brazil have undergone a radical change for the better in the four years since the then finance minister, a former sociology professor named Fernando Henrique Cardoso, embarked on an innovative anti-inflation strategy.

Mr Cardoso is now president and his strategy, known as the Real Plan after the new currency it created, is still in place. Though the war has not yet been won, the plan has brought inflation down from 2,700 per cent in 1994 to single figures this year.

A markedly different economic landscape has emerged in Brazil. Persistent very high inflation led to huge distortions in the real economy as banks, industrial companies and wealthy individuals gained more from playing inflationary roulette than from productive activities.

According to a recent analysis of the financial system produced by the ministry of finance, some 4 per cent of gross domestic product was being transferred annually in the early 1990s from the rest of the economy to the banking system because of high inflation.

Those gains – made from the loss of value of sight deposits and the payment of below-inflation interest rates – have now disappeared.

The adjustment to a new order has already taken its toll: 37 banks have been taken over or liquidated by the government. And, though the cost to the government has been less as a percentage of GDP than for example Mexico's crisis of 1995, the adjustment is not yet complete.

Weaning banks and other economic agents off inflation will take time: the more so since high real interest rates – a consequence of tight money and lax fiscal policy – still bring substantial returns that reduce incentives to make productive investments.

Furthermore, commercial banks will have to increase efficiency and develop skills that are already commonplace elsewhere – learning how to lend in underdeveloped consumer and commercial markets, for example.

Bank credit to the private sector in Brazil accounts for just 34 per cent of GDP, compared with 49 per cent in Mexico, 51 per cent in Chile and 65 per cent in the US. The bank credit market thus appears to have significant potential for growth – and if Brazil follows the pattern of other more developed financial markets, the prospects for the expansion of non-loan banking business is even higher.

Such possibilities are enticing foreign banks. The most notable new entrant – HSBC, the world's second largest banking group – has made it clear it intends to become the largest bank in Brazil.

The entry of HSBC, which may encourage other foreign banks to take a harder look at the market, suggests domestic banks will face tougher competition on price and service.

It is not only in financial services however, that foreign entrants are helping to change the market-place. Lower inflation has encouraged foreign direct investment in many sectors, as first multinationals – and now smaller foreign companies – seek to secure a place in a market seen as having huge potential.

"It's incredible the volume of new investments that are coming into the country," said Mr Raimundo Christians, a partner with Price Waterhouse in São Paulo.

According to central bank figures, Brazil received $5.9bn in foreign direct investment in the first five months of 1997, 82.1 per cent up on the same period last year. In 1996, Brazil received $9.4bn of FDI, compared with $3.9bn in 1995 and $2.2bn in 1994.

Although these figures may include some sums that have arrived in Brazil to take advantage of high local interest rates, they strongly suggest a favourable reassessment of the Brazilian market among international companies.

So far, however, most of these companies are looking to the domestic market. The fall in inflation has allowed many of Brazil's 160m people to emerge from subsistence and become consumers for the first time. For others, access to consumer finance means they can at last afford consumer durables and cars.

Few companies yet appear to be looking at Brazil as a platform for exports. Productivity is said to be rising but investors say costs of production are still high by international standards, for reasons which include high non-salary labour costs and poor infrastructure.

In addition, as has been the experience elsewhere in Latin America after trade liberalisation, the productivity of domestic industry appears to be lower than once thought.

One manifestation of this is weak exports and rising imports – both encouraged also by an overvalued exchange rate. An important consequence is that it is opening opportunities for foreign investors among Brazil's family companies.

High interest rates and still underdeveloped capital markets make it difficult for many family companies to invest and compete with new foreign entrants. A growing number of companies are therefore looking to sell out, or to form joint ventures with foreign companies that can bring them finance, technology and new management skills.

That process – together with privatisation – is eroding the traditional structure of corporate Brazil, dominated by family and state-owned companies.

It is budgetary pressures that are encouraging the privatisation of Brazil's large state-owned enterprise sector – which is providing another opportunity for foreign direct and portfolio investors.

Privatisation, according to Mr Edmar Bacha of Banco BBA Creditanstalt and Mr John Welch of Paribas in New York, could raise $68bn for the federal and state governments between 1997 and 1999.

The successful sale last month for R$3.34bn of a 41.7 per cent stake in the mining giant CVRD, the most sensitive state company so far to go under the hammer, has enhanced the prospects for further privatisation.

This restructuring has brought a wave of foreign investment banks into Brazil and such intense competition for privatisation mandates that fees have fallen to levels well below those prevailing in the US, a much less risky market.

The government is the main beneficiary of lower fees but there could be questions about the quality of these underwriting commitments in the event of a more difficult market environment.

A successful privatisation programme is also viewed as a critical factor in providing medium-term help to cover the country's twin deficits on the current account and in the budget.

Privatisation, says Mr Bacha, will help to stabilise the growth of Brazil's public sector debt and should be more than sufficient to finance a current account deficit of around 4 per cent of GDP for a couple of years.

On the fiscal side, the overall budget deficit is likely to approach 5 per cent of GDP this year, compared with 6.1 per cent last year. "Fiscal deficits of 5 per cent of GDP are unsustainable over time," said Mr Pedro Malan, the finance minister. "But we are working towards bringing it down."

A reduced fiscal gap has been long promised but the constitutional changes needed to allow a sustainable reduction in fiscal deficits have been delayed in Congress.

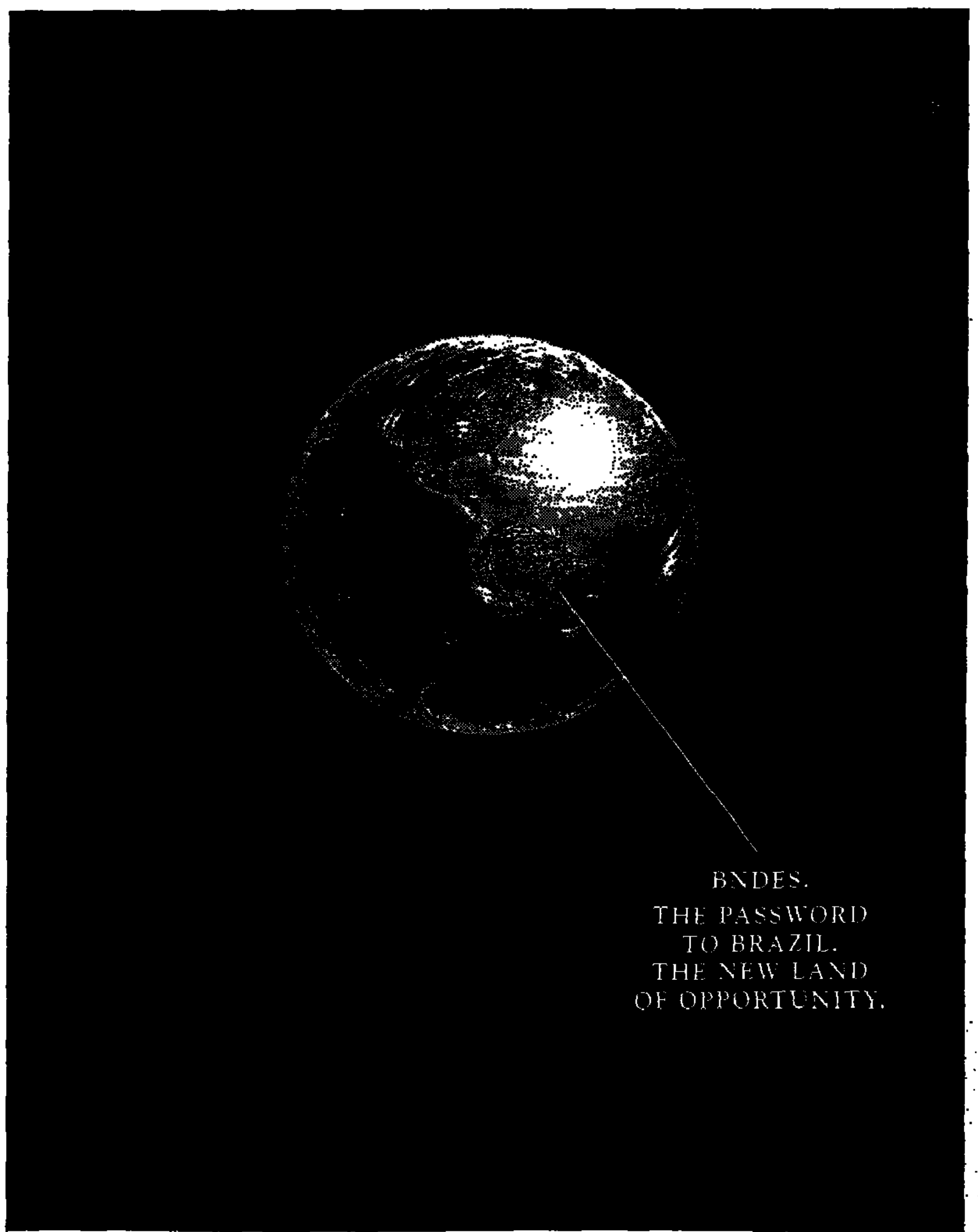
As a result, Brazil's anti-inflation programme has been overdependent on a tight monetary policy – hence very high real interest rates – and a strong exchange rate. This is, depending on the calculation, overvalued anywhere between 10 and 30 per cent.

If this policy imbalance is not corrected over the medium term, the strain will tell. The government is crowding out the private sector from the markets and inhibiting investment, while monetary policy and selective government controls are left with the job of constraining consumer demand and imports.

Furthermore, many economists believe the government will have to adopt more exchange rate flexibility at some time in the future – and the manner in which the regime is adjusted will be critical to the survival of the anti-inflation strategy.

Many investors believe that resolving these issues will be eased by Mr Cardoso's success this month in securing a constitutional amendment allowing him to stand for a second four-year term of office.

To fully justify investors' new-found optimism in his country, however, Mr Cardoso has a lot more work to do.



THE ECONOMY • by Geoff Dyer

Twin deficits may upset strategy

A doubling of the trade gap compared with last year is forecast

Nearly three years after its launch, the Brazilian government's economic strategy, known as the Real Plan, has notched up an impressive list of achievements – inflation below 10 per cent and seemingly under control, sustained if unspectacular growth and a modest improvement in Brazil's notoriously unequal distribution of wealth.

However, as the third anniversary approaches, the government's macro-economic policy is being criticised more frequently. Economists are even beginning to ask if the government can reach the presidential elections next October without suffering at least a minor currency crisis.

Government ministers acknowledge that the present policy mix of loose fiscal policy, tight monetary policy and an over-valued exchange rate cannot last indefinitely. The question is whether this stance can be maintained in the short to medium term while the government attempts to correct the underlying imbalances.

"The current stance is financeable but it is not sustainable," says Mr Affonso Pastore, one of the most trenchant critics of government policy. "At some stage they will have to devalue the currency."

The exchange rate policy is being put under pressure by Brazil's twin deficits. The government ran a budget deficit equivalent to 7 per cent of GDP in 1995 followed by 6 per cent last year, both figures well ahead of initial expectations. Meanwhile, the current account deficit has been growing much faster than had been forecast and is expected to reach more than $35bn this year, more than 4 per cent of GDP.

Mr Pedro Malan, finance minister, acknowledges that the government "still has a long way to go" on the fiscal front, but he argues that "the trend is improving". In the first three months of 1997 the nominal deficit fell to 5.7 per cent of GDP, he says.

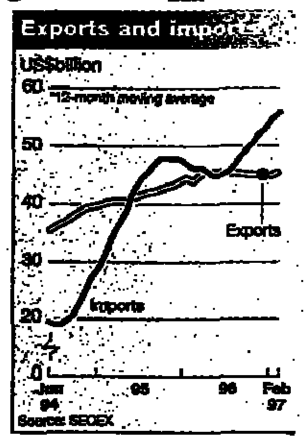
He stresses that the wage bill for the federal government has remained constant in nominal terms since 1995. This, along with other belt-tightening measures, will help the government to meet its fiscal target this year of a 1.5 per cent primary surplus – that is before interest payments – which will allow it to stabilise the stock of government debt at around 34 per cent of GDP, he says.

Critics point out, however, that the fiscal improvement last year was partly the by-product of lower interest payments on government debt, a benefit which is unlikely to be repeated this year. The central bank also takes a more cautious view on 1997's fiscal prospects, forecasting a primary surplus of just below 1 per cent.

The anxiety about the economy stems partly from the pessimistic outlook for crucial reforms to the social security system and to the civil service contained in two bills. More than two years after they were first proposed by the government to Congress, neither bill is near being approved. Yet without the reforms, the government's ability to make a significant impact on the budget deficit will be limited.

The social security system reform bill was so emasculated by the lower house last year that the government withdrew it. A tougher version is being introduced in the senate, which if passed will still have to be sent back to the lower house.

Administrative reform passed its biggest hurdle in April, the first vote in the lower house. However, since then the bill has been becalmed by in-fighting in the government coalition. The government has already lost one important amendment and the danger is that the bill will suffer the same fate as the social security bill did last year.



However, Mr Malan dismisses the suggestion that the government is not going to try and push through the constitutional reforms this side of the election. "It is important to show our ability as a society to move toward fiscal consolidation."

Moreover, the political climate also provides some reassurance on the fiscal question. At present there is no strong alternative candidate to President Fernando Henrique Cardoso, making him a strong favourite in the 1998 elections. The markets would take a less indulgent view of the prospects for fiscal tightening after the election if there were a stronger challenger on the horizon.

The growth in the current account deficit has been capturing just as many headlines this year. While exports have been growing at an annual rate of around 5 per cent, imports have been accelerating at 15 per cent. A trade deficit of more than $10bn is forecast for the full year, compared to $5.5bn in 1996.

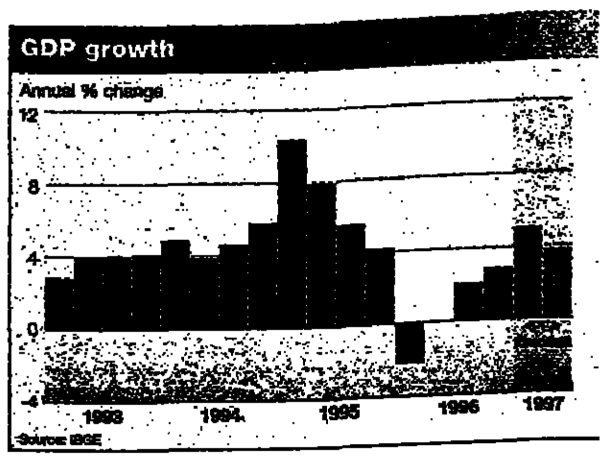
With the exception of a few sectors, such as electrical goods and cars, economists say that the rise in imports is not the result of over-heating in the domestic economy, suggesting that the current account problem cannot be solved by tightening monetary policy, even if the government was willing to do so.

Mr José Roberto Mendonça de Barros, economics secretary at the finance ministry, says that pessimistic analyses of the current account ignore the improvements in competitiveness achieved over the past two years, which will boost exports in the long term.

Ministers also maintain that as a developing country undergoing such an economic transformation, it is natural for Brazil to be running a current account deficit. This implies that foreign savings are being imported to finance domestic economic development.

However, the existence of the parallel fiscal deficit weakens this argument. Foreign savings are picking up the bill for government spending rather than corporate re-tooling.

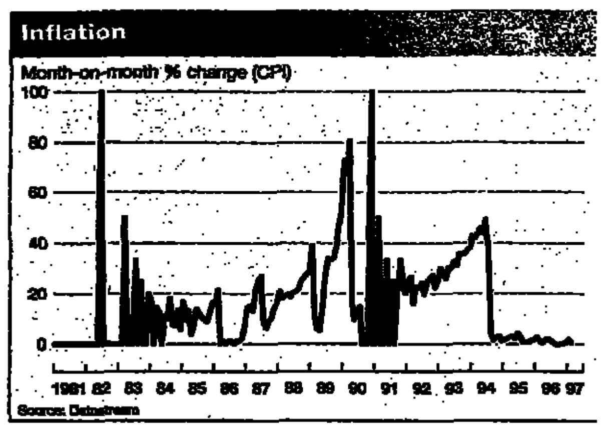
Moreover, some economists argue that the rise in the current account deficit is placing a significant constraint on short-term growth under the current exchange rate.

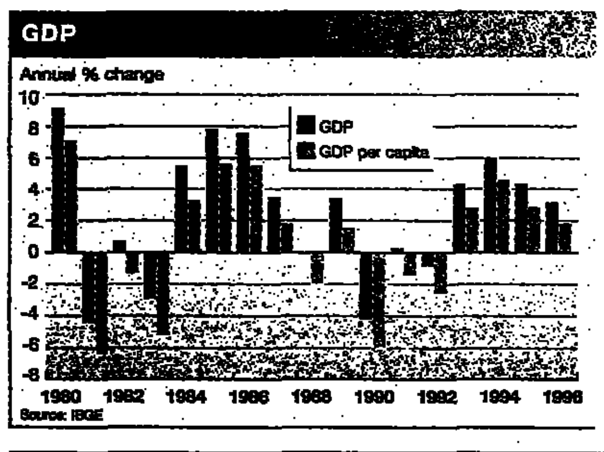


Given these rising financing requirements, it is not surprising that economists are asking questions about the sustainability of the current policy stance. However, according to Mr Edmar Bacha, the former head of the National Development Bank (BNDES) and an economist with Banco BBA Creditanstalt, there is one factor in the macro-economic equation that will ease the pressure on the government – privatisation.

Mr Bacha estimates that the government will raise $56bn from asset sales over the next three years, less than some other forecasts. This will allow the government to stabilise the debt position and give it more time to push through fiscal reforms, Mr Bacha argues.

But even if the government does make significant progress on privatisation, it will still need to rely on one more condition to give it the necessary breathing space – a benign international environment continuing. With many economists forecasting tighter monetary policy not just in the US, but also perhaps in Japan and Germany, Brazil's twin deficits could become ever harder to finance between now and the election.





PRIVATISATION • by Geoff Dyer

Sell-offs look set to raise at least $56bn

The programme is one of the biggest among developing countries

Buffeted by endless political scandals and with its fiscal reforms facing fierce opposition in Congress, privatisation is emerging as the Brazilian government's most successful policy.

The up-beat tone was set by the R$3.34bn (US$3.1bn) sale in May of a controlling stake in Companhia Vale do Rio Doce (CVRD), the world's largest iron ore producer in the first stage of Latin America's biggest privatisation. The winning consortium was led by steelmaker Companhia Siderúrgica Nacional (CSN).

The government is now embarking on a heavy schedule of sell-offs, including the telecoms network, most of the electric energy industry, roads, railways and ports, over the next two to three years.

Mr Edmar Bacha, the former president of the National Development Bank (BNDES) and now with Banco BBA Creditanstalt in São Paulo, calculates the government will raise US$56bn from sell-offs by 1999. Other estimates go as high as US$80bn.

Whatever the figure, it counts as one of the biggest privatisation programmes in a developing country, if not in the world.

Privatisations are a vital part of the government's economic agenda. On the micro-economic front, they are a means of attracting new investment, especially from foreign companies, to accelerate the modernisation of Brazilian industry. Crucial parts of the country's infrastructure, in particular the telecoms and energy networks, are in dire need of fresh capital.

From the macro-economic viewpoint, the proceeds from privatisation are eagerly sought, first to stem the growth of the government's debt while longer-term fiscal reforms are attempted, and second to help finance the ballooning current account deficit.

Brazil's privatisation potential

Company	Estimated sale amount* US$bn
[illegible]	[illegible]
Telebrás subsidiaries	16.5
[illegible]	[illegible]
Eletrobrás subsidiaries	16.0
[illegible]	[illegible]
São Paulo electricity system	8.0
[illegible]	[illegible]
Other local electricity distribution companies (51% stake)	4.3
[illegible]	[illegible]
Public sector banks	2.1
[illegible]	[illegible]
Central Bank's Unibanco shares	1.0
[illegible]	[illegible]

Source: Paribas

It would therefore be hard to underestimate the importance of the CVRD privatisation for the Brazilian government. It provided proof that the government could stick to a task in the face of widespread opposition, which included the country's Catholic bishops, two former presidents and several thousand protesters outside the Rio de Janeiro stock exchange where the auction took place.

It was a close run thing, though. The auction was delayed for one week due to more than 130 legal challenges against the privatisation. Further delays could have forced the government to issue a new sale document, which would have

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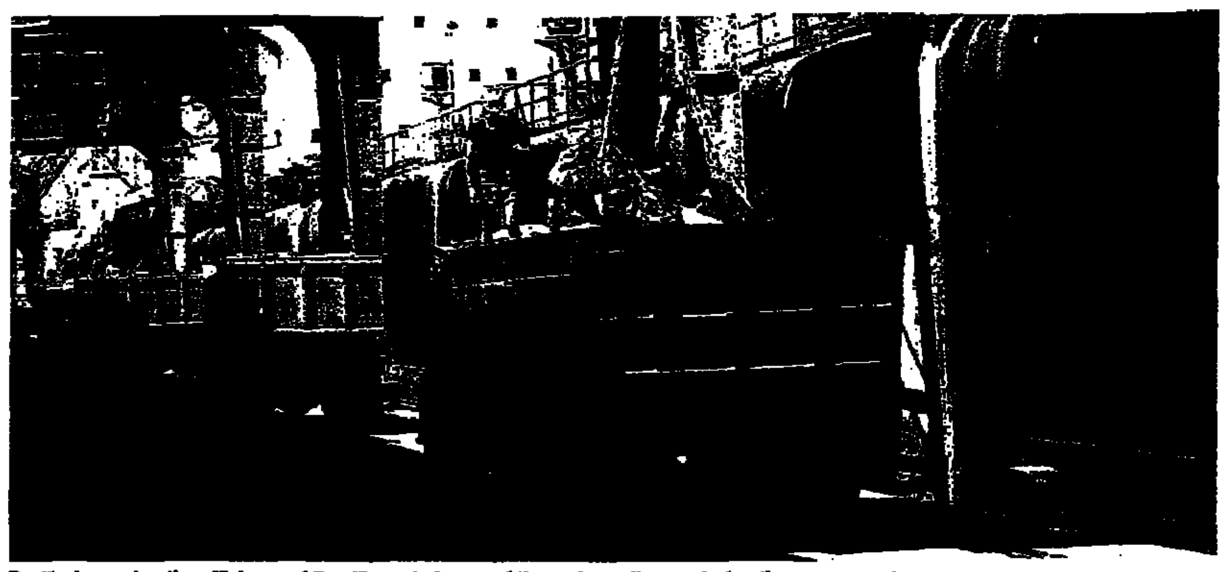
INFRASTRUCTURE • by Geoff Dyer

Gloomy prospect for growth ambitions

About $24bn a year is needed to finance large-scale projects



Recife: improving the efficiency of Brazil's ports is one of the main challenges facing the government

On two April evenings this year large parts of southern Brazil were plunged into darkness by power cuts which caused havoc for several hours and created traffic jams more than 100 miles long in the city of São Paulo.

The cause was put down to a faulty transmission line. However, the black-outs served as a timely reminder that Brazilian infrastructure is having problems keeping pace with the country's economic ambitions.

The electric energy system is under the most pressure. Recent economic growth has only been at modest levels, yet even three years of sustained increases in output have prompted warnings of energy rationing and regular power cuts. While the energy sector plans to invest around $3.2bn a year in new capacity, analysts say that $6.4bn is needed annually to keep up with growing demand – equivalent to three large nuclear plants a year.

Across the economy as a whole, including areas such as water sanitation and transport, the government estimates the funding needs for infrastructure projects in Brazil are around $24bn a year.

These investments are not vague items on a political wish list but vital projects for the country's economic development. As well as securing a reliable energy supply, they include much needed improvements in roads, ports and airports to enhance the competitiveness of Brazilian exports and to allow local companies to take advantage of the trading opportunities afforded by the Mercosur customs union.

The Inter-American Development Bank (IADB) estimates that 75 per cent of the funds for infrastructure projects in Latin America come from governments. However, given that the Brazilian government is fighting tooth and nail to reduce a budget deficit which economists see as a potential source of economic instability, the demand for infrastructure investment is obviously incompatible with fiscal reality.

Mr Charles Alexander, a director at NM Rothschild, the investment bank, adds: "The private sector cannot rely on the World Bank and the IADB to finance all these infrastructure projects." So where will the money come from? Or rather, is the private sector going to be willing or able to fill the gap?

The government's privatisation programme, which includes power companies, ports and telephone operators, will be a significant catalyst in attracting some of that investment. Mr Sergio Motta, the communications minister, estimates that the sell-off of the telecoms sector will result in investment of $100bn over the next six years. For instance, the government is selling 10 regional cellular phone concessions at a minimum price of around $6bn. The winning consortia are expected to invest at least the same amount again in rolling out their services.

The task is also being made easier by the better access Brazilian borrowers are getting to international capital markets, at ever longer maturities and tighter spreads. The Brazilian government's plan to extend its yield curve to 30 years will give a significant boost to this process.

Improved access to capital markets and the perception of reduced political risk are also opening up new funding possibilities, such as project financing where the banks share some of the risk in a project with the sponsoring companies.

The first genuine project financing was put together last year with an IADB-sponsored deal to finance the "Linha Amarela", a toll-road in Rio de Janeiro. The concession to expand and operate the Dutra highway between Rio and São Paulo was also financed on a similar basis.

In the energy sector the first project financings for new power plants, awarded under the 1995 concession law, are now being arranged. Banks are discussing financing arrangements with Intergen, a consortium of US power producers, for the concession it won to build the Jacui power station in Rio Grande do Sul. The final package is expected to include a significant element of limited recourse financing. Bankers also forecast that the financing of the Itá power station, in the same state, will involve a project finance-type structure.

The benefit of this type of financing is not just as a means of channelling more foreign funds into Brazil, but also the considerably reduced cost of the money. "The lower interest rates mean that many more projects become feasible. Project finance could have a huge role to play in Brazil," says one foreign banker in São Paulo.

Bankers also believe that the winners of the cellular telephone concessions, which are likely to include some of the best-known names in the telecoms industry, could access the US private placements market to finance their operations, potentially opening up another source of debt funding.

On the equity side, some of the slack that is not taken up by industry investors might be absorbed by private equity funds. Over the past two years Brazil has seen a proliferation of these funds, both domestic and foreign. However, despite the rapid transformation that is taking place in the corporate sector, there are still only limited opportunities for private equity investments. As a result, many of them are expected to turn some of their attention to infrastructure.

The need for private investment also means that governments have to change the role they play in infrastructure projects, says Mr Enrique Iglesias, president of the IADB. Rather than being the financier, constructor and operator, governments now have to manage the projects, participate in planning decisions and monitor the performance of private companies. Their success in performing this role efficiently and transparently will have a significant impact on private investment, he says.

Sell-offs may raise $56bn

Continued from page 2

meant a postponement by at least one more month and substantial damage to the its reputation.

Although the winning consortium in the CVRD auction was largely Brazilian, given the size of the rest of the privatisation process, foreign companies are likely to play a crucial role. "The privatisations cannot be done without a big percentage of foreign financing," says Mr Charles Alexander, a director of NM Rothschild, the investment bank.

Several important steps have been taken since the CVRD sale. At the end of May the state of Minas Gerais sold a one third stake in Cemig, its electricity generator and distributor, for R$1.13bn to a consortium led by two US companies, AES and Southern Electric.

Privatisation has begun in the telecoms sector as well, with the collection of bids for 10 cellular telephone concessions, known as "Band-B". The winner of the first concession in São Paulo is expected to be announced this month.

However, unlike the CVRD sell-off, the privatisation of industries such as telecoms and energy are complex exercises which require the break-up of the two state-owned holding companies, Telebrás and Electrobrás, the creation of independent regulators and the establishment of clear rules of competition.

In both cases there is still much work to be done. The bill to create a regulator for the telecoms sector is still being reviewed by Congress. The electric energy industry has a regulator, but the government's advisers, Coopers & Lybrand, have yet to publish their final recommendations on the future structure of the sector.

Many of the crucial rules that will affect foreign investment are not included in the legislation and will be the responsibility of the relevant minister or industry regulator over the next year. In unguarded moments, government officials admit that these omissions prevented members of Congress inserting restrictive amendments in the bills.

However, this leaves many uncertainties for foreign companies making decisions at the moment about investing in Brazilian privatisations. "We are taking a lot on trust," says the head of the Brazilian subsidiary of an international telecoms company.

According to Ms Elena Landau, former head of the privatisation unit at the BNDES and now a managing director at Bear Stearns in São Paulo, it is a risk worth taking for foreign companies. "You have to be there before everyone else is. If you wait for everything to be sorted out, by that time the competition will be intense," Ms Landau says.

She points out that three electricity distributors – Light and Cerj in Rio de Janeiro and Escelsa in Espirito Santo – have already been privatised without a regulator being established and that the government upheld its commitment to raise Light's tariffs in line with inflation.

Another worry for foreign investors is that opponents of privatisation, emboldened by their success in delaying the CVRD auction, will unleash a similar avalanche of legal challenges against future auctions. The consolation is that the sales of the telecoms and energy networks are unlikely to prompt the same level of popular outrage as CVRD, given the visible shortcomings of the services provided.

BANKS • by Jonathan Wheatley

Turning point for banking sector

The arrival of two global institutions will force a new discipline on the market

When HSBC bought Banco Bamerindus for US$1bn in April, expectations ran high that it would force new levels of price competition and customer service on Brazil's commercial banks.

HSBC has been quick to play down talk of a shake-up: "A lot of people are going to be disappointed," says Mr Michael Geoghegan, president of the new HSBC Bamerindus. Nevertheless, the arrival of the international banking group marks a turning point in the consolidation of Brazil's banking industry.

Much has already changed. With the end of high inflation, banks lost the easy earnings they made in the interval between receiving and paying funds. Many have had to learn from scratch basic banking skills such as lending and taking deposits.

At the same time, economic reform has boosted consumer spending power and brought hundreds of thousands of Brazilians into the financial services market for the first time.

For many big retail banks, change has been traumatic. The loss of easy earnings exposed widespread inefficiencies.

Among a string of casualties were two of Brazil's biggest and oldest banks, Econômico and Nacional. Both collapsed with massive liquidity difficulties and were taken over by rivals.

Bamerindus was long known to be in similar difficulties. Its purchase by HSBC marks the biggest entry by a foreign bank into Brazil and, coming on the heels of announcements of smaller investments by Lloyds TSB and Banco Santander of Spain, underlines the government's new willingness to see foreigners take a prominent role in the industry.

Rumours of the bank's difficulties led to a massive drain of commercial deposits before the takeover. This side of the business, says Mr Geoghegan, will have to be rebuilt "from the ground up"; he hopes to be helped by the HSBC group's existing business ties overseas with 300 of the biggest 500 Brazilian companies.

On the retail side, while many of Brazil's biggest banks are shedding staff and considering branch closures, Mr Geoghegan talks of expansion, adding 200 branches to the existing 1,200.

"Brazil is overbanked, but only in the middle and top sections of the market," he says. "If economic stability endures, banks will have to supply services to a much wider section of the population."

The biggest private sector banks have been able to ride out the turmoil of the past three years by adjusting to change before it came and by adopting conservative lending policies. Service fees, recently freed of central bank control, are an increasingly important part of their income.

Even under more stable conditions, fees vary widely from bank to bank. Many observers had hoped HSBC's arrival would impose fiercer competition.

"Banks need to have a clear understanding of the cost of their services," Mr Geoghegan says, "but our arrival will not be the basis of a price war. A cost war, yes, but cutting fees abruptly would be irresponsible and destabilising."

Nevertheless, analysts say HSBC's arrival and that of Santander, which has permission to open up to 200 branches, is bound to force new discipline on the market.

"The backing of the HSBC group gives HSBC Bamerindus a much lower capitalisation cost," says Mr Arthur Bueno of Lafis, a São Paulo firm of analysts. "They will be able to operate with lower spreads and the others will have to compete."

Mr Geoghegan talks of introducing European-style "relationship" banking to Brazil, as opposed to the predominant "hard-sell" approach copied from the US system, and has begun retraining staff accordingly.

Although Brazilian banking technology is among the most sophisticated in the world – a legacy of the demands of high inflation – standards of service are often poor. The arrival of more foreign banks should force improvements.

However, for as long as HSBC remains the only international bank with a significant presence in Brazil's mass market, the pace of change is likely to be slow.

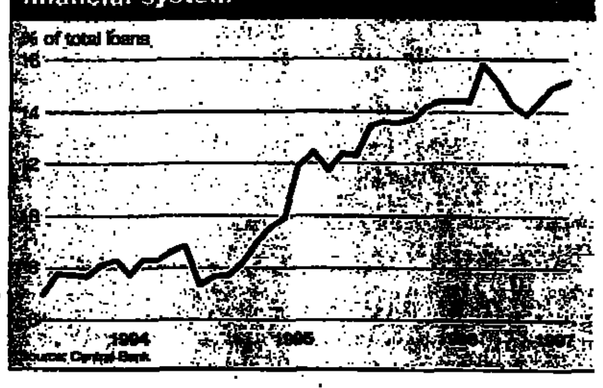
That may not last. Citibank and Bank of Boston have both been in Brazil since early this century, but have concentrated on commercial clients, with limited retail operations at the top end of the market. Citibank is now talking of widening its reach, perhaps though telephone banking.

Bank of Boston has long been understood to be seeking new retail opportunities. Now that the restructuring of the big private banks seems to be complete, the remaining opportunities lie in the privatisation of the public sector.

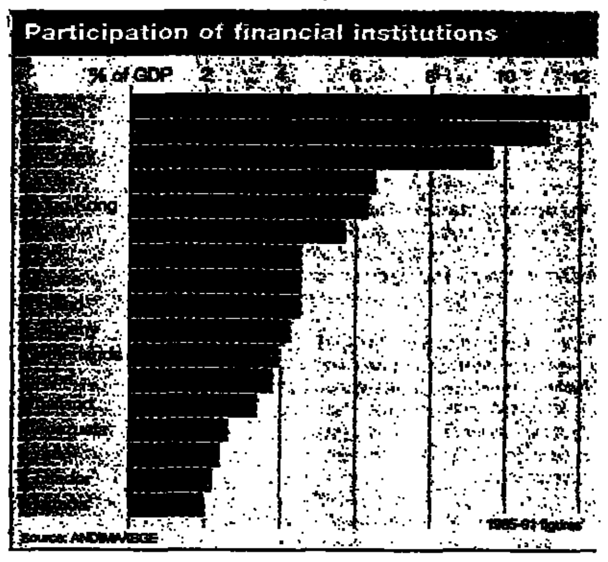
Last month, the federal government reached a deal with São Paulo state that should allow for the sale of the state's bank, Banespa, within a year. Much sooner, on June 20, the government of Rio de Janeiro hopes to sell its bank, Banerj, for a minimum price of R$300m.

By a combination of privatisation and opening the door to foreign competition, the government seems determined to impose greater efficiency on Brazil's once complacent commercial banks.

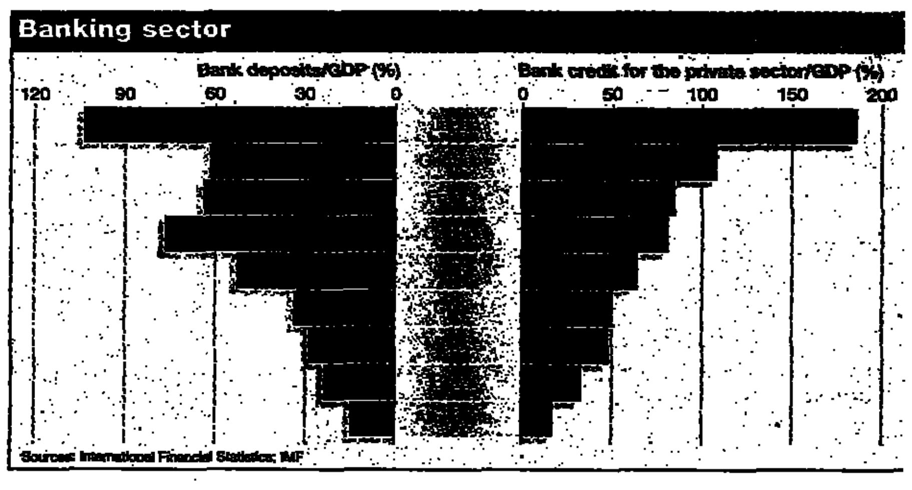
Overdue and non-performing loans in the financial system



Participation of financial institutions



Banking sector



CAPITAL CONTROLS • by Stephen Fidler

Inflow curbs are 'temporary measure'

The policy goal has been to stay one step ahead of the financial markets

Economists have yet to resolve their long-standing debate about whether controls on inflows of foreign capital are a helpful tool in avoiding financial crisis.

The debate intensified after the Mexican devaluation crisis of 1994-5. Some economists argued that Chilean-style controls aimed at deterring inflows of short-term capital would have helped Mexico to avoid the sort of conditions that led to the crisis.

The problem Brazil has had since the introduction of its new currency in 1994 has been an economic policy that has relied on high domestic interest rates and a more or less explicit promise to limit the depreciation of the exchange rate.

This combination is wonderful for international speculators. But as their funds pile in, money supply is swollen – in the absence of offsetting action by the authorities – and all kinds of strains are placed on the domestic economy. Furthermore, in the event of a devaluation, these investors can quickly head for the exits, helping to precipitate the kind of crisis Mexico suffered in 1995.

Brazilian policy makers have viewed controls on capital inflows – along with controls over a host of other variables such as consumer credit – as an important part of their policy armoury. Scarcely a week passes without some adjustments to them. Last month, for example, the central bank restricted overseas financing through credit cards in an attempt to curb the current account deficit.

Brazilian officials do not deny that such controls have costs in terms of efficiency, but that they are an effective temporary expedient as they try to stabilise the economy.

According to Mr Francisco Lopes, director of monetary policy at the central bank: "We have always viewed these sorts of controls as a temporary mechanism that we'd not like to have in a steady state. It's part of a pragmatic response to a transition process in a society that has lived with inflation for many decades."

Mr Persio Arida, a former central bank president who is now with Opportunity Asset Management in São Paulo, is more forthright: "From the point of view of allocation of resources, the controls are a disaster. But from the point of view of effectiveness, they have worked very well."

The Brazilian currency, the real, does not meet the criteria of convertibility for International Monetary Fund purposes. Mr Arida said capital controls mean in effect that for those who can afford it "the currency is convertible at a very high transactions cost".

Lifting capital controls would, he argues, make the real more vulnerable: the more convertible the currency, the stronger the possibility of a speculative attack. "It gives rise to another source of fragility," he said.

However, capital controls are being questioned. There are doubts about whether they have an impact on reducing the volume of inflows, and whether they have more than a marginal effect on the composition of those inflows.

In a paper written for the United Nations University/World Institute for Development Economics Research, Ms Eliana Cardoso argues the controls have failed in some of their supposed objectives – in particular, the attempt to secure more desirable longer-term capital flows and repel short-term money.

"Because it is easy to divert capital flows from one form to another, capital controls may not limit investors' ability to take desired positions," said Ms Cardoso, formerly a senior official in the ministry of finance and now a senior researcher with the International Monetary Fund.

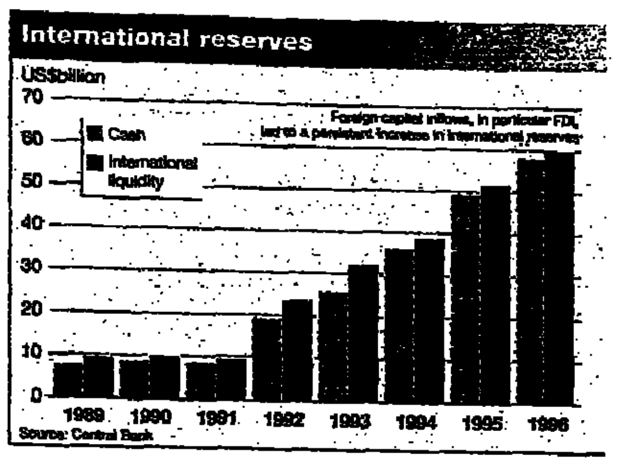
Balance-of-payments statistics may not reflect the underlying reality, she argued. Anecdotal evidence suggested "that capital flows in the form of foreign direct investment have not reflected the true use of these inflows since early 1996. Because of the 7 per cent tax on investment in fixed income assets, businesses were bringing in dollars for investment in fixed income assets and registering the capital inflow as foreign direct investment."

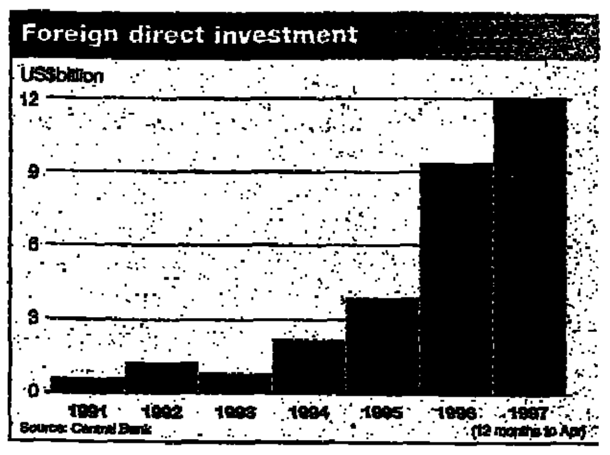
This 7 per cent tax was reduced in April to 2 per cent as the authorities switched their concerns from excessive inflows to ensuring that the current account deficit can be financed. Indeed, critics argue that the rules are always changing anyway – since the authorities are forced to stay one step ahead of the financial markets which constantly find ways around the restrictions.

As a result, some of the supposed advantages of the Chilean system – where the rules are reasonably transparent and the instruments largely non-discretionary – are absent in the Brazilian case.

Mr Lopes at the central bank pointed out that sometimes even the objectives of the controls can change. For example, controls introduced on foreign borrowing were originally meant to encourage Brazilian borrowers to extend the maturities of loans from foreign banks.

Mr José Roberto Mendonça de Barros, economic policy secretary in the finance ministry, said the controls were part of a "search process" as the government looked for successful policy combinations to complete the struggle against inflation.





FOREIGN DIRECT INVESTMENT • by Stephen Fidler

New territory for investors

The country's greater economic stability has attracted foreign companies

Since the 1994-95 financial crisis in Mexico, Brazil has been the leading destination for foreign direct investment in Latin America. According to central bank figures, foreign direct investment has soared since inflation fell in 1994.

There is, says Mr José Roberto Mendonça de Barros, secretary of economic policy in the ministry of finance, a remarkable similarity between the pattern of FDI growth in Brazil and that in China in the early 1990s.

China is now the biggest recipient of FDI in the developing world. And though Mr Mendonça de Barros is quick to point out that he is not making predictions, there is no doubt that foreign companies are discovering Brazil in an important way.

With greater economic stability, many investors view Brazilian country risk as having fallen. The opening of the economy to foreign goods and capital has provided new areas for investment and reduced obstacles to free remittance of profits and dividends.

Meanwhile, the government's anti-inflation programme, known as the Real Plan, has brought in new consumers to the western hemisphere's second largest market and offered the prospect of sustained growth.

Falling inflation has also allowed the advent of consumer financing. This, says Mr Miguel Jorge of General Motors in São Paulo, is for the first time allowing buyers to buy cars and consumer durables, and pay for them over periods extending to 50 months.

The official figures show FDI rising to $12.1bn in the year to end-April, with the figure for the whole of 1997 expected to rise towards $15bn, with the help of privatisation. This compares with $9.4bn in 1996, $3.9bn in 1995 and $2.2bn in 1994. In the early 1990s, FDI averaged about $1bn a year.

There are some questions over the methods used in compiling figures. The calculations do not have to be made by the more stringent criteria of the Organisation for Economic Co-operation and Development, as are Mexico's for example.

There is also some evidence that some inward flows of capital have been classified as FDI where money has in fact been directed to interest rate arbitrage in the financial markets.

But anecdotal evidence is strong that FDI is on the increase – and is set to increase further. Mr Raimundo Christians, a partner at Price Waterhouse in São Paulo, says that whereas once the investors were exclusively big multinationals, he now sees significantly smaller companies looking to invest.

It is now not unusual for medium-sized US companies with sales of $400m-$500m to be looking at investment possibilities. Moreover, US companies are now the dominant investors, in contrast with the 1980s and early 1990s when European companies were at least as important. "They are looking at how to benefit from Mercosur," he said. Mercosur is the customs union joining Brazil with Argentina, Uruguay and Paraguay.

From certain standpoints, direct investment is easier than it was. Income taxation has fallen to international levels, though indirect taxes remain very high and non-salary labour costs add the same again to salary costs. "Income tax is acceptable, but indirect taxes are very complicated. It really affects the costs of operating in Brazil," said Mr Michel Mertens, vice-president in Brazil of BASF, the German chemicals giant.

Although direct investors in some industries – particularly those in technologically-dependent industries – prefer to build greenfield sites, a large number are looking to make acquisitions.

Those seeking acquisitions sometimes find Brazil's family-owned concerns receptive, since they lack capital and cannot afford to borrow at Brazil's high real interest rates. Such companies also are often seeking technology and management skills to develop their businesses in an environment of international competition.

More than 300 family-owned companies sold out to corporate buyers in each of the past four years, according to estimates from Mr Renato Berhoeft, a São Paulo consultant, compared with 52 in 1990.

Some foreign investors prefer joint ventures. As a way of entering the Brazilian market, joint ventures may be the fastest and safest, said Mr Raul Beer at Price Waterhouse. "Particularly for a foreign company that is used to working with partners, it's much easier to have a local partner to show you how things are done."

Yet, although FDI into Brazil is rising sharply, there are substantial differences with China. Unlike in China where many direct investors are concentrating on export markets, investors in Brazil are focusing almost exclusively on the domestic market – with the possible addition of Argentina.

High costs, moderate (though apparently improving) productivity, inadequate infrastructure and an overvalued exchange rate combine to make Brazil as yet an unlikely platform for large-scale manufacturing exports.

Some investments – for example in the automobile industry which according to the Economist Intelligence Unit plans to invest $14.2bn in Brazil in the second half of the 1990s – appear to some critics to have been in part prompted by high tariffs. "Difficulties in entering the Brazilian market become incentives to invest there," said one Argentine official last year.

Moreover, while the Brazilian government has become less obstructive to foreign investors, some complain it still gets in the way far too much.

"Corruption in Brazil at all levels of government is astonishing," said one British businessman based in Rio de Janeiro.

Compaq, the computer maker, chose to site its fourth world production site in Brazil in 1994 – a fifth has since opened in China. It has now established market leadership with some $45m of the company's $420m revenues last year, were produced locally.

That local content figure is expected to rise soon to $150m, helped by the start this month of production of laptop computers, according to Mr Jorge Schreurs, president of Compaq Computer Brazil.

However, in a fast-moving field, Compaq changes its product range every six months – and it needs at least two months' notice to secure import licences for any new components.

Compaq also has to share commercially sensitive information with government officials who have signed a confidentiality agreement.

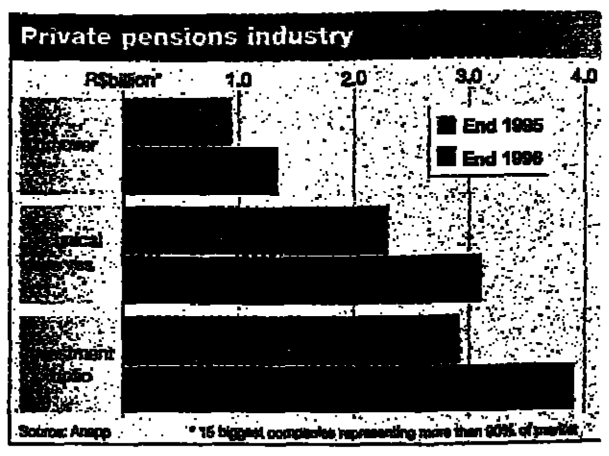
Furthermore, high tariffs encourage smuggling of computers or parts. The "grey market" in mostly unbranded computers accounts for about 40 per cent of the market.

However, Brazil is benefiting from the general reduction of tariffs all over South America, which is leading multinationals with a long-standing presence in the region to rationalise production facilities.

BASF has South American production facilities in Argentina, Chile, Peru, Colombia as well as Brazil. But says Mr Wilfried Kahlmann, president of its South American group: "Future investments are going mostly to Brazil."

Still, while investors are more positive on Brazil's prospects than at any time in recent memory, there are still doubts about the durability of the economic stabilisation.

"We are happy with the general direction of the reforms. We are concerned about the pace," said Mr Kahlmann. "We'd like them to go a bit faster."



PENSIONS • by Jonathan Wheatley

Reform stalled

The attempt to change the pension system faces daunting opposition

The mere prospect of changes in Brazil's public pensions system was enough to spur a 43 per cent increase in turnover for private pension plans last year, in spite of the government's severe difficulty in persuading Congress to back its proposed reforms.

Growth is almost certain to continue. Spending on private pensions, at less than half of 1 per cent of domestic product, remains very low, while economic stability is bringing more Brazilians into the market for long-term investments. However, the pace of change depends on events in Congress.

"We are looking forward to very sharp growth," says Mr Luiz Carlos Trabuco Cappi, president of the National Private Pensions Association (Anapp). "But the size of the market depends on the reforms. The government's present proposal is too timid, it is only a temporary solution to the system's cash flow problems."

Those problems are severe. Public pensions are financed by employee and employer contributions to a general welfare system that immediately pays this money out in benefits to existing pensioners. Any excess is diverted to other welfare spending. In 1992, benefits and administrative expenses consumed 85 per cent of receipts; the remainder was spent on health services. Last year, receipts covered benefits only. Administrative costs were financed from government debt.

The pensions system enshrined in the 1988 Constitution is proving to be unworkable. Brazil is one of eight countries in the world that set retirement according to the number of years worked; it is alone in allowing claimants to go on working after they qualify for a pension.

The rationale for "period of service" retirement is that it benefits lower paid workers, who begin their working lives earlier. In reality, argues the government, since claimants must prove that they have been employed for the requisite period – 35 years for men and 30 for women – poorer workers suffer, as they are more likely to spend periods unemployed or working in the informal economy.

The real beneficiaries of the system are middle-class professionals and public servants, many of whom receive additional special privileges.

The system's underlying flaws have been exacerbated by demographic changes. In the 1950s, there were eight people in work for every pensioner. Today, the proportion is two to one. Bankruptcy is the inevitable outcome.

The reforms now in Congress would set a minimum retirement age of 60 for men and 55 for women and put an end to many special privileges. Even such mild changes face daunting opposition in Congress. The Lower House destroyed the proposals at their first reading a year ago. They are now in the Senate, where they will be restored and sent back for approval in the Lower House, probably during the third quarter. There is no guarantee that the government will fare any better at its second attempt.

Even if approved, the changes are only a stepping stone to a full overhaul of the system. The government would like to see a reformed version of the existing system paying state pensions of at most three minimum salaries a month: R$336 at present values. Individuals would then "top up" their pensions with private plans.

Many middle class Brazilians are already doing so.

"The market for private pensions already exists," says Mr Dany Rappaport, chief economist at Banco Santander in São Paulo. "Many Brazilians prefer not to rely on the state for their pensions, just as they accept it's their own responsibility to take out health insurance."

Nevertheless, persuading the majority of working Brazilians to rely on the private sector will require a cultural change, not least within the pensions industry.

Retail financial services in general are aimed much more at the middle classes than at the mass market. The industry will have to broaden its reach and become more competitive and more efficient.

"There's going to be a terrific explosion," says Mr Rappaport. "This is one of the very big areas for foreign banks. They are very strong in this area and it's going to be a race between them and the local industry."

Mr Trabuco Cappi at Anapp agrees that the industry faces fundamental changes.

"Competition will be the key word," he says. "Pension providers will have to concentrate on offering flexible plans with lower administration costs. In marketing terms, the biggest challenge will be to demonstrate to the general public that the private system is reliable."

INSURANCE • by Jonathan Wheatley

Foreigners move in

International insurers are taking advantage of the country's huge potential

After the heady growth rates of the previous two years, 1996 was a "normal" year for Brazil's insurance industry: premium income grew by a mere 4 per cent, after rising by a quarter in 1995 and more than doubling in 1994.

Even so, this is no time for insurers to sit back and relax. Per capita premiums remain low, at about $92 in 1995 compared with $2,300 in the US. The market can be expected to double over the next six or seven years.

That prospect has attracted a wave of investments from international insurers. In February, Aetna, the US life and health insurer, announced plans to spend $300m in a joint venture with Sul America Seguros, Brazil's biggest insurance company.

Cigna, another US insurer, said in March it would invest $73m in a joint venture with local bank Excel-Econômico to offer life and other retail insurance. ITT Hartford earlier announced a similar venture with local insurer Icatu Seguros. Other big international groups, such as Allianz of Germany and AGF of France, have been in Brazil much longer.

The new arrivals have promised to make aggressive use of direct marketing techniques common in developed countries but so far little used in Brazil. If successful, this will help them bypass some of the inefficiencies of the existing distribution system.

Most have taken care to tie up with local partners with strong retail distribution. Traditionally, however, a big proportion of Brazilian insurance, especially health, is sold through a vast number of small- and medium-sized brokerages, many using outdated systems exacerbated by a lack of standard industry practices in areas such as information-gathering.

This problem has taken on greater importance for many Brazilian insurers. Once they were able to absorb inefficiencies with the cushion of easy financial earnings under high inflation but now they face a more competitive market.

The prospect of increased competition has also led to a rising number of mergers and acquisitions. Eleven such operations were reported in the industry during the first quarter of this year, up from 16 in the whole of 1996.

Much of the market's recent growth has come from non-life products, especially vehicle and household insurance. As a result of the boost to their spending power brought by economic stability, many Brazilians are not only buying more cars and durable goods, they are also more willing to insure them.

> The market can be expected to double over the next six or seven years

Non-life insurance, other than health, accounted for about 65 per cent of premiums in 1995.

That picture is changing as the prospect of lasting stability has encouraged many people to plan for the future for the first time. Life products have grown quickly from a small base: their share of premiums rose from 12 per cent in 1994 to 20 per cent a year later and is almost certain to keep rising.

"Life insurance used to seem a very unsympathetic product to Brazilians, who saw it as entirely linked to death," says Mr Paulo Marraccini, a director at AGF in São Paulo. "Now we are seeing more policies coming on the market that pay out during life."

Corporate insurance also promises strong growth. Federal and state privatisation programmes are exposing many big corporations to the demands of the private sector: most saw little need to insure their assets when their controlling shareholders were undemanding government officials.

The big change in corporate insurance will come with the end of the monopoly held by the Brazilian Institute of Reinsurance (IRB). It is preparing for deregulation and privatisation and is expected to begin competing with other reinsurers in about two years, although when this happens will depend on legislation currently making slow progress through Congress.

Mr Paulo Cesar Pereira Reis, director of international operations, says the IRB is becoming more flexible in negotiations with local insurers – although it retains absolute control over where risk is distributed overseas – and is ready to face strong competition from big international reinsurers after privatisation.

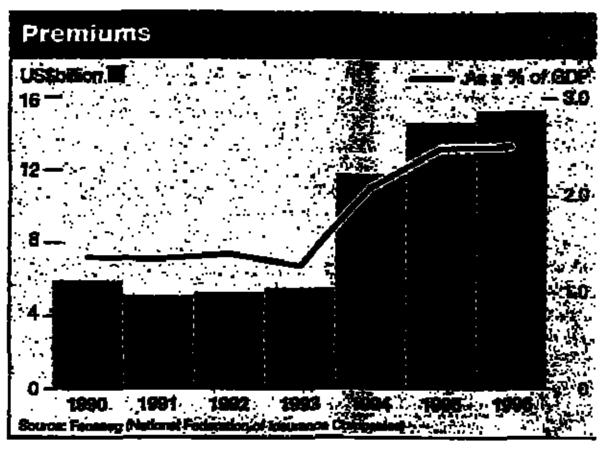
"We will have to compete for business like anyone else, but we are leaner and more agile than we were in the past, and nobody understands Brazilian risk like we do," he says.

Deregulation may also open opportunities in workplace accident insurance. This, however, depends on the ending of a government monopoly scheme, the INPS, which has strong support in Congress.

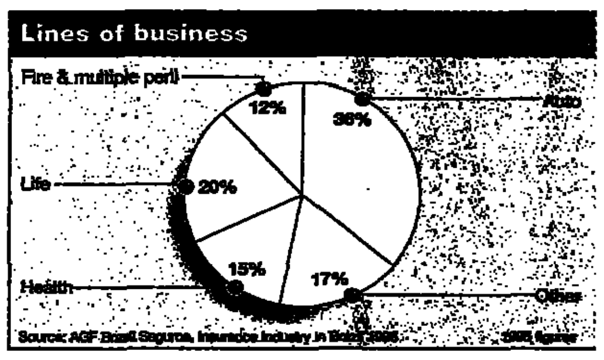
In addition to these uncertainties, says Mr Marraccini at AGF, insurers also face a severe lack of market information: while figures for premium volume are available, other data, such as the proportion of cars insured beyond the very basic legal minimum, are often matters of hearsay.

Faced with the prospect of a rapidly expanding market, however, many of the world's biggest insurers have already shown their willingness to confront difficulties such as these.

Premiums



Lines of business



MANDATES • by Stephen Fidler

Fees are deciding factor

Banks are not being adequately compensated for risks in a volatile market

Brazil's privatisation programme has had a magnetic effect on investment banks from Europe and the US. Between 1997 and 1999, an estimated $55bn of assets may be sold by Brazil's federal state and local governments.

The prospects of winning this business – and thereby of establishing a strong position in Brazil's rapidly evolving corporate landscape – has generated intense competition for mandates.

So fierce has become the contest for business, that fees for underwriting business have fallen below even US levels. At such levels, many bankers argue banks are not being adequately compensated for risks in a volatile market. The fear is that low fees will be reflected in weak underwriting commitments in the event of market shocks.

For advisory business, a combination of UK and US banks has been a winning combination. With 70 per cent of the points awarded for the technical quality of the bid – according to the principles established by the National Development Bank (BNDES) – British expertise in utility privatisations has been useful.

Despite this, the decisive factor in most competition is the fees, which account for the remaining 30 per cent of the points. These have dropped from around 1 per cent in some early privatisations through 0.5 per cent in the privatisation last year of CRT, the telephone operator in Rio Grande do Sul, and 0.25 per cent in the case of Cerj, the electricity distributor of Rio de Janeiro. "Now people are winning mandates with fees of 0.15 per cent," said Mr Roger Wright, of Banco de Investimentos Garantia in São Paulo.

Advisory business, unlike underwriting, does not generate financial risks. However, underwriting fees have collapsed too – from levels that were considered low at the outset.

Early underwriting mandates set fees at levels between 2 and 2.5 per cent. JP Morgan won a mandate for Cemig, the Minas Gerais electricity utility, at 2.4 per cent. Bear Stearns won the mandate for Usiminas, the steel maker, at 2.25 per cent.

Then Goldman Sachs emerged with a bid of 2.1 per cent for the privatisation of Light, the electricity utility, which it justified to competitors by arguing that it is a US market convention for utility companies to be underwritten for lower fees than industrial or financial companies.

The spread fell further with CVRD, the state mining conglomerate, when Merrill Lynch and NM Rothschild won with a bid of 1.9 per cent. That low fee was justified by the winners as a blended spread, since it was partly a mergers and acquisitions transaction – such deals commanding lower spreads than underwritings – and partly a public share offering.

A 41.7 per cent stake of voting shares was sold last month to a single consortium led by CSN, the Brazilian steelmaker, while the rest of the government stake is scheduled to be sold by the end of the year through an international and domestic offering.

Subsequently, though, fees for pure underwritings fell below this level. In January, four banks – SBC Warburg, JP Morgan, Lehman Brothers and Morgan Stanley – won the mandate to place shares in Unibanco, for just 1.5 per cent of the amount raised. Since then, Credit Suisse First Boston bid only 1.15 per cent for the $300m-$400m initial public offering later this year of Petrobras, the oil and gas group.

By comparison, a $700m offering for the US rental car group Hertz was underwritten for a fee of 4.5 per cent.

"Banks are looking at this market and deciding to buy market share," said Mr Wright of Garantia. Many have established offices and other infrastructure in Brazil and even razor-thin fees help to offset costs, he said.

"You are now seeing debt fees for equity deals," said Ms Elena Landau, managing director at Bear Stearns in São Paulo.

However, she said it was doubtful whether these helped to build a reputation with the government – since the rules governing the privatisation mandates left officials with little discretion.

Ms Landau, formerly with BNDES, said the motivation appeared in part to be to climb up the league tables compiled by specialist publications – and thereby help to build a franchise. In the bigger deals, sheer volume made up for narrow margins, she said.

Whatever the issues raised for foreign investment banks, the competition is sharper for their Brazilian counterparts. Mr Wright at Garantia said it was unlikely that all the current participants could survive.

However, like the US banks – and including specialist firms such as KKR – Brazilian banks are looking to take equity stakes in companies, many of which are private.

This development of private equity finance – which has been developing forcefully in the US – allows them the prospect of becoming the company's in-house investment banker.

For example, Goldman Sachs's equity stake in the food processor Arisco seems to have secured it a mandate for a $150m eurobond issued by the company with generous fees – compared with the privatisation issues – of 1¼ per cent.

MERGERS AND ACQUISITIONS • by Geoff Dyer

Takeover fever builds up

The number of acquisitions has risen from a mere 58 in 1992 to 328 last year

Of all the industries in Brazil that have seen a strong advance over the past two years, few can have been more dramatically affected than the market for advising on mergers and acquisitions.

In 1992, the accounting firm KPMG recorded 58 takeovers in Brazil. By 1996, that number had risen to 328, which represented a 53 per cent increase on the previous year. In the first quarter of this year the number of transactions rose from 65 in 1996 to 105.

These figures give an indication of the rapid and deep restructuring that Brazilian capitalism is undergoing. Foreign companies, which accounted for around half of the takeovers last year, have been playing an increasingly dominant role in this process.

At the beginning of the 1990s Brazil provided a very comfortable business environment for those companies, domestic or foreign, which were already established. High tariffs and a myriad of complex regulations kept foreign imports at arm's length, while the government and the large number of state-owned corporations provided lucrative business for companies with connections. Cost increases were automatically passed on to hapless consumers.

However, in the past few years this situation has changed dramatically. The macro-economic stabilisation of the economy – the combination of inflation under control and steady growth – has altered the job of management from reacting to price rises to planning for future expansion. Trade liberalisation has ushered in a flood of higher quality and cheaper foreign imports.

The more competitive business environment has opened up many opportunities for the larger Brazilian companies which, as a result of reduced political risk, can now access international capital markets. However, for smaller companies, many of them family-owned, the new conditions have forced many into the hands of foreign buyers.

The food and drinks industry has been the sector most affected. The reduction in inflation resulted in a sharp rise in the purchasing power of less well-off people. Multinationals have responded by buying new brands. Meanwhile, the need to invest to take advantage of the growth potential has led to the sale of many local companies.

The process started with the purchase of Industrias de Chocolate Lacta by Philip Morris and the acquisition of Tostines, the biscuit maker, by Nestlé in 1993 and has gathered pace ever since. Parmalat, the Italian food company, has made 11 acquisitions in that period and the sector as a whole saw 38 deals last year.

In the automotive parts sector, which has also seen dramatic change, the driving force has been the globalisation of the industry. Multinational car producers in Brazil are now demanding cheaper and better quality parts which they can often obtain abroad, forcing many local companies to seek partners or go out of business.

Meanwhile, in the banking sector, the reduction in inflation exposed the weakness of many local institutions. Up to 40 per cent of profits in the banking sector were made from the so-called float – the time lag between receiving and paying funds. When these earnings disappeared, three of the country's largest private sector banks collapsed and were taken over: one of them, Bamerindus, by an international banking group, HSBC.

Even in sectors where Brazilian companies have been playing a large role in the restructuring, such as cement where Votorantim has made several acquisitions, the impetus has come from foreign companies. Votorantim's purchases have maintained its market share in the face of aggressive expansion by Holderbank of Switzerland, France's Lafarge Coppée and Cimentos de Portugal.

The pace of takeovers shows no signs of letting up. Mr Octávio Castello Branco, head of investment banking at JP Morgan in São Paulo, says: "There is sufficient room for restructuring that this trend could continue for five more years."

Bankers predict that the pharmaceuticals industry will be the next to see a rash of deals after a new patent law went into operation last month. Smaller drugs companies will no longer be able to copy the solutions of larger producers and take short-cuts on their own research and development.

And, as Brazilians have come to realise that low inflation might be here to stay, they have begun to pay more attention to savings products, which has led to a number of takeovers and mergers in the insurance sector, as foreign companies try to obtain a share of the market.

The biggest transfer of ownership, however, will result from the government's privatisation programme, where assets of more than $50bn are expected to be sold over the next three years. In the telecoms and energy sectors, this process will result in the creation of up to 20 new and large private sector groups.

Foreign companies will not be the only beneficiaries of this consolidation. Several Brazilian companies, such as steelmaker CSN and Votorantim, have taken advantage of the new environment to strengthen their domestic position and others are likely to follow.

FAMILY BUSINESSES • by Geoff Dyer

Family-run companies in search of finance

Foreign competition has forced small businesses to seek more capital

The 1990s have not been an easy time for the family businesses that still dominate large sectors of the Brazilian economy.

Family-controlled companies, many founded by immigrants in the post-war period, have been facing the sort of succession problems with which any student of family capitalism will be familiar.

This headache has been aggravated by the introduction of foreign competition, from imports now allowed into the country and from multinational corporations that have entered the market or significantly expanded their presence.

The pressure has been too much for many of these companies. Mr Renato Bernhoeft, a São Paulo consultant, estimates that more than 350 family businesses in Brazil were sold in each of the past two years, compared to only 52 sales in 1990. In 1994, 280 of the biggest 300 private companies in Brazil were family-controlled: by 1996 this number had fallen to 265.

If anything, this process will accelerate. According to Mr Denis Jungerman, a vice-president at investment bank JP Morgan in São Paulo: "A lot of businesses were hoping that things would go back to the old ways. Now they realise they have to shape up."

However, despite the number of companies looking for a way to "shape up", very few have taken the option of raising fresh capital on the stock exchange. The number of companies registered with the Securities Commission (CVM) as having open share capital has increased from 874 at the end of 1994 to 942. Yet officials say that only a small number of these new companies are actually listed on the stock exchange.

For those companies which can access international capital markets, debt financing has been the preferred tactic. During the decades of protected domestic markets, the large dynasties were able to accumulate sizeable cash piles. Faced with foreign competition they have chosen to leverage their balance sheets. For instance, the biggest family group in the country, Grupo Votorantim, is set to issue its first eurobond.

"In a few years' time there might be a move towards equity, but in this first stage large Brazilian companies have opted for debt," says Mr Roger Wright, a director at Banco Garantia in São Paulo.

Cost is also a factor. While debt is still not cheap for Brazilian companies, equity is even more expensive. Although the stock market has risen strongly this year, many companies still trade well below their book value.

Banco de Bahia estimates that the cost of equity for leading Brazilian companies in dollar terms is 17.27 per cent, compared to 12.44 for debt. It is only natural that debt should be cheaper because of the lower risk involved. However, bankers say that while spreads have tightened in the debt market because of reduced political risk, equity responded more slowly.

Rather than float, many family companies have preferred to take on a foreign partner with know-how. Mr Bernhoeft says they often feel more comfortable with one or two partners, rather than having to deal with thousands of anonymous shareholders and being listed on a stock market dominated by a few large companies.

According to Mr Jungerman, the benefits of a partner are exemplified in the case of Banco Geral de Commércio, a retail bank which is now majority-owned by Spain's Banco Santander. A small institution that was stagnating under its former owner, construction giant Camargo Corrêa, Santander can bring the bank new technology, more sophisticated products and international connections, he says.

Cultural factors have also made companies reluctant to float. Brazilian entrepreneurs have so far baulked at the loss of control and level of disclosure that a listing would involve. Ironically, many of them are immigrants from Italy and Germany, two countries with strong entrepreneurial cultures but weak equity traditions and which have both experienced the same debate about family control over the past decade.

However, corporate financiers believe that this trend will change. The balance sheets of family companies will soon be fully leveraged, especially if growth accelerates above the 5 per cent level. Moreover, the transition to equity financing, they say, will be aided by the introduction of private equity funds in Brazil.

In search of higher and diversified returns, foreign institutional investors have put an estimated $1.5bn into new private equity funds in Brazil which take temporary stakes in companies. A number of local institutions have set up similar funds.

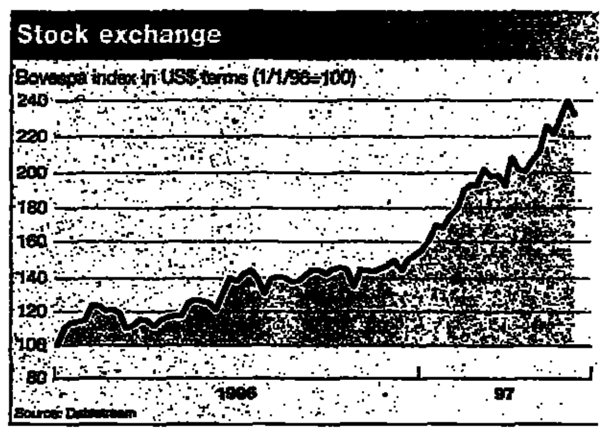
Bankers say that in many cases these investments could be considered the first step on the path towards a flotation. The funds will professionalise the management of the companies and ease them towards becoming a public company.

STOCK MARKETS • by Jonathan Wheatley

The time has come, the analysts say

Stock prices are still rising fast but the feeling is that the bull run must soon end

Stock exchange



Market commentators have been saying all year that Brazilian stock prices cannot keep rising much longer. So far, the markets have proved them wrong.

However, after five months of watching the apparently inexorable rise of the São Paulo Stock Exchange Index (Ibovespa) – up 60 per cent to the end of May – analysts now insist that the time has come, if not for a fall, then at least for levelling out.

It has been a heady few months. The year got off to a tremendous start when the government, in a remarkable piece of political generalship, succeeded in persuading the unruly lower house of Congress to approve a constitutional amendment allowing the president, along with state governors and mayors, to run for a second consecutive four-year term in office.

This was just what investors wanted. President Cardoso's government, after its fine beginnings in the battle against inflation, has disappointed many by its failure to push its politically sensitive reform programme through Congress.

With the prospect of a second Cardoso administration now at hand, investors were confident the government would at last begin to make headway.

It has not happened. Reforms that are essential to long-term economic stability continue to move at a snail's pace through the legislature, with no guarantee that they will emerge intact.

Nevertheless, the Ibovespa went on rising. One reason was optimism over privatisation, especially of telecommunications.

Many observers had been surprised in December by the successful sale of a 35 per cent "strategic" stake in CRT, a telecoms operator controlled by the government of the southern state of Rio Grande do Sul. A consortium including Telefónica Internacional of Spain paid R$681 for the stake, 54.8 per cent more than the minimum price, beating off a rival consortium including Stet of Italy, which also bid well above the minimum.

> The need for progress on the reform programme is becoming ever more pressing

The sale was the first significant step in the privatisation of Brazil's telecoms networks, a process eagerly awaited by portfolio investors.

The fact that two big multinational operators, both with significant interests elsewhere in Latin America, had put such a high value on a minority stake in a comparatively small company was taken as an excellent omen.

Telecoms has long been an important sector on Brazil's stock markets. Shares in Telebrás, the public sector holding company, regularly account for more than half of daily volume and have 45 per cent weighting in the Ibovespa. Continued optimism over telecoms privatisation has been behind much of the recent gains: Telebrás shares rose by more than 20 per cent in May.

At least as important, however, has been a migration of funds to stock markets away from fixed income investments following the steady reduction in domestic interest rates.

"Brazilian investors are used to very high returns from fixed income, and the 1 per cent a month now paid by savings accounts seems very little to them," says Mr Jorge Kotani of Lafis, a São Paulo firm of analysts. "The stock market can go up 1 per cent in a day, and enough money has come in to keep those sort of gains going."

The migration has been enormous. In the year up to the end of the first quarter, assets invested by Brazilian mutual funds grew tenfold to about R$10bn.

Many analysts agree that Telebrás is now close to its "correct" price and cannot rise much further. Mr Kotani points out that many investors are looking beyond Telebrás and other big privatisation stocks in telecoms and the electricity industry to second tier stocks.

President Cardoso: failed to push through reforms

Especially popular are stocks in companies that supply equipment to the telecoms and power industries.

"Mutual fund managers have so much money to invest that they need to keep buying," he says, "but that has to run out of steam soon. From now on investors need to proceed with much more caution."

Other analysts agree that the bull run is nearing its end and that the government's failure to see its reforms through Congress must soon begin to worry investors.

While the government struggles to gain control of public spending, growth in the current account deficit is causing increasing concern.

"The government argues that there is enough direct foreign investment coming in to cover the current account, and in the short to medium term it is correct," says Mr Paul Steele of Banco Geral de Comércio in Sao Paulo. "But the deficit is already close to 4 per cent. That's some way off Mexico's 7 per cent deficit before its currency crisis, but for investors whose horizon is two or three years ahead, it's starting to be a worry."

The need for progress on reform is becoming ever more pressing in the approach to next year's presidential and congressional elections.

Campaigning starts early in Brazil: a recent exchange of accusations of corruption between government and opposition politicians suggests it has already started. Once it really gets under way, politicians will make time for little else.

Analysts admit they got it wrong earlier in the year, when many saw no reason for the markets' early gains to be sustained. For all that, they are no less insistent now: the bull run must run out of steam soon.

FUTURES • by Jonathan Wheatley

Small victory for exchange

The return of foreign investors will increase volume trading by up to 30 per cent

When the central bank lifted restrictions on hedge operations by foreign investors on Brazil's futures markets last month, officials at the São Paulo Commodities and Futures Exchange (BM&F) greeted it as a small victory in their long-running campaign to remove all barriers to foreign capital.

"The government has made a timid first step towards putting us in a better position to compete with overseas exchanges," says Mr Manoel Cintra, president of the BM&F.

The central bank was almost certainly acting more because of worries over Brazil's growing current account deficit than from concern for the well-being of futures markets. Last month's change lifted a ban on trade in derivatives by foreign investors. This ban was imposed in August 1995 on the grounds that funds entering the country through a channel known as Annex IV – used to grant tax-free access to stock exchanges – were being used to construct "boxed" hedge operations that amounted to fixed income instruments.

At the time, foreign capital was entering Brazil in enormous volumes to take advantage of its extremely high interest rates, putting pressure on the money supply and threatening to derail the stabilisation programme. Now, with interest rates much lower and speculative capital on the way out, the government needs to attract foreign funds to plug the current account gap.

None of which diminishes the significance of the change to the BM&F. In its annual report for 1996, the exchange said the ban "was dramatically felt this year, resulting in a reduction in the number of customers and ... in broker revenues." Mr Cintra says the return of foreign investors will increase volume trading by up to 30 per cent, though he makes no estimate of the amount of new capital that will be attracted.

The BM&F began operating in 1986. Its first decade has seen growth that brought it to the position of the world's third biggest futures exchange in 1995.

Piqued officials at other markets have pointed out that the BM&F's ranking by contract volume, the standard measure for futures and commodities exchanges, ignores the fact that its contracts are smaller than those on the big international markets. This charge no longer sticks. The BM&F's biggest volume contract, one-day interbank deposits, is now valued at R$100,000. The second biggest, US dollar futures, is valued at R$50,000 and will rise to R$100,000 in November.

In spite of the increases in contract value, the BM&F remained among the world's biggest exchanges last year, slipping from third to fourth.

Although growth in financial volume remained strong, last year was a difficult one for many futures traders. Economic stability and the loss of easy earnings after the fall of high inflation proved too tough a test for some and the exchange bought back 15 trading licences from brokerages that either closed or merged with others.

The central bank closed down a further 14 brokerages and two small banks involved in a corruption scandal involving alleged illegal debt issues by state and municipal governments. The brokerages had used trades on the BM&F to hide profits from the scheme.

"We don't believe the scandal did any damage to the BM&F's credibility, because its credibility is entirely financial and that remains sound," says Mr Paulo Novaes Villela, a director of Unidade, a São Paulo commodities brokerage. "The more the central bank clears out those brokers who make their money from other activities, the better for the rest of us."

The BM&F's financial solidity is its strongest card as it prepares for more openness to foreign capital. Last year its clearing system was the first in the world to be awarded an ISO 9002 certificate. Mr Dorival Alves, superintendent at the exchange, says the fact that the market began operating quite recently meant that it was able to incorporate sophisticated financial technology from the start.

"We have made a very big investment that has brought us fantastic returns in terms of international credibility," he says. "This is of crucial importance to us because foreign banks are always going to have doubts about financial security in developing markets."

Investments in technology will continue. The exchange is about to build a new trading floor, three times larger than the existing one which has become too crowded.

Although the government has moved forward only very cautiously in granting access to foreign investors, BM&F officials are convinced that further deregulation will come. The exchange has an office in New York and has begun discussions with Brazil's partners in the Mercosur trading bloc on standards for agricultural contracts.

"Although there is very little foreign investors can do here at present, we are exchanging visits with them as if Brazil were already completely open," says Mr Cintra. "The government is giving clear signals that it is moving towards more openness and we need to invest in that before it happens."

11 years of the BM&F

Year	Financial volume (US$000)
1986	19,335,613
1987	15,524,631
1988	29,870,651
1989	54,780,541
1990	39,318,713
1991	91,656,173
1992	226,802,681
1993	532,407,228
1994	1,576,807,459
1995	3,043,595,202
1996	4,743,904,462

Source: BM&F

INTERNATIONAL BONDS • by Jonathan Wheatley

Warmer international reception for paper

Banks have been able to lower their spreads steadily over the past four years

Economic stability has brought a warmer reception for Brazilian debt on international capital markets and allowed more companies to tap a growing demand for higher-yielding paper. A similar trend is opening new opportunities for corporate borrowers on domestic markets.

Perception of the "Brazil risk" is falling, albeit slowly: Standard and Poor's recently upgraded Brazil to BB minus from B plus, although both it and Moody's have stopped short of granting an investment-grade rating.

Easier access to the eurobond market is reflected in the evolution of average spreads above US Treasuries achieved by borrowers from the financial and non-financial sectors.

Banks have been able to lower their spreads steadily over the past four years: they are familiar figures on international markets and their perceived risk has fallen in line with that of the country.

For big borrowers in the non-financial sector, it is a similar story. Issuers well-known to eurobond markets, such as Klabin, the paper and pulp group, and Globopar, the investment arm of the Globo media empire, have seen a steady fall in spreads.

For the non-financial sector as a whole, however, the fall in spreads has been more erratic as new companies have come to the market, paying higher spreads than their well-established peers.

"Foreign investors discovered Brazil only recently," says Mr Paulo Henrique Rocha of Bozano Simonsen, an investment bank. "Their perception of the Brazil risk is much better and there is a big demand for Brazilian bonds at all levels. Lenders are prepared to take on smaller issues from smaller companies."

Spreads for well-known borrowers have fallen to such an extent, Mr Rocha says, that many investors feel the extra yield over US papers is hardly worth the risk: they are more inclined to go for the bigger returns offered by smaller issuers.

In the early days of the Real Plan, Brazilian banks borrowed heavily overseas to take advantage of generous arbitrage opportunities offered by very high domestic interest rates. As the rate of capital inflows threatened to undermine the government's monetary policies, the central bank imposed restrictions on this kind of borrowing.

Now that interest rates have fallen and arbitrage is less attractive, analysts say the central bank may lift its restrictions in a bid to attract more short-term capital needed to finance the current account deficit.

Non-financial borrowers, who in the past used eurobond issues primarily to retire expensive domestic debt, are now more likely to use borrowings on productive investments.

"Lenders are very receptive to issues from companies wishing to expand in promising areas," says Mr Rocha. "Telecoms, electricity and other areas of infrastructure are all doing well. Investors who specialise in these areas are entering the market for Brazilian debt for the first time."

While international markets are becoming more receptive, Brazilian borrowers are unlikely to see spreads fall much further in the medium term.

Brazil's risk is now comparable to that of Argentina, Chile and Mexico, and analysts say it will tend to level out as investors take account of the government's political difficulties in implementing its reform programme.

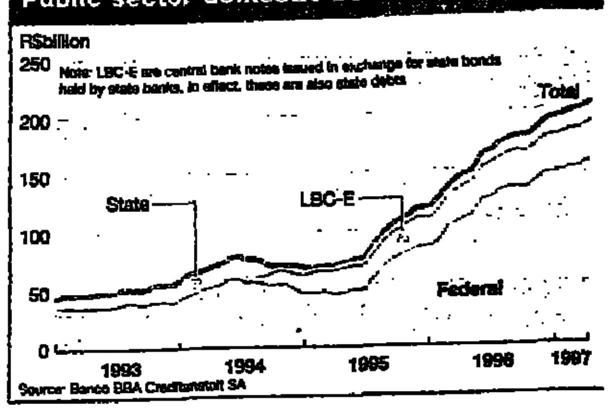
Nevertheless, eurobond markets will continue to be the main source of capital for many companies. Brazil's stock markets are making every effort to persuade more companies of the benefits of share issues but while the number of issues has increased in the past three years, progress is very slow. Many Brazilian companies remain culturally disinclined to share control.

Domestic bonds, however, are likely to become a more alternative attractive. The federal government has led the way with a series of new domestic papers aimed at plugging the gap between its long-term international borrowing and mostly short-term domestic debt.

The longest maturity of any domestic paper is 36 months on a floating-rate Treasury note launched last September; the longest fixed-rate paper has a maturity of just 12 months.

This, however, is a considerable advance on the 30-day maturities offered until the early months of the Real Plan. The Treasury is now contemplating a five-year paper linked to interest rates and a 15-year paper linked to consumer price inflation.

Public sector domestic bond debt



Source: Banco BBA Creditanstalt SA

Brazilian eurobond issues

Evolution of average spreads (base points above US Treasuries)

	Financial sector	Non-financial sector	Government
1991 2nd half	728	578	475
1992 1st half	543	551	375
2nd half	568	475	
1993 1st half	615	686	525
2nd half	462	486	
1994 1st half	407	412	489
2nd half	389	501	
1995 1st half	395	270	450
2nd half	367	389	325
1995 1st half	387	455	298
2nd half	314	454	332

Source: Anbid (National Association of Investment Banks)